

# Corporate Governance Statement

For the year ended 30 June 2017



The Board of Directors of Southern Cross Electrical Engineering Limited ('SCEE' or 'the Company') is responsible for the corporate governance of the Company and accountable to the Company's shareholders.

This Corporate Governance Statement summarises SCEE's approach to corporate governance and its compliance with the ASX Corporate Governance Council's Principles and Recommendations ('ASX Principles') in the year ended 30 June 2017.

SCEE's corporate governance practices were in place throughout the year, unless otherwise stated.

The Corporate Governance Statement for the year ended 30 June 2017 was approved by the Board on 29 August 2017.

## Principle 1: Lay solid foundations for management and oversight

### Role of the Board

The Board is responsible for, and has the authority to determine, all matters relating to the management and operation of the Company.

The Board operates under a Charter, a copy of which is available in the Corporate Governance Section of the Company's website.

In exercising its responsibilities the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure continued growth and success of the entity; and
- implementation of budgets by management and monitoring progress against budgets – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- approval of the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- reporting to shareholders.

### Board Committees

Whilst at all times the Board retains full responsibility for guiding and monitoring the company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and Risk Management Committee; and
- Nomination and Remuneration Committee.

The roles and responsibilities of these committees are discussed in this Corporate Governance Statement at Principle 2, Principle 4, Principle 7 and Principle 8.

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## Role of Management

The responsibility for the operation and administration of the Company is delegated by the Board to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

## Role of the Company Secretary

The Company Secretary is responsible for supporting the effectiveness of the Board and is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

## Appointment of Directors

Prior to appointing a director, the Board ensures that proper background checks are performed.

Directors appointed by the Board, and directors retiring on rotation in accordance with the Company's constitution, are required to be re-elected by shareholders at a General Meeting of the Company. All relevant information relating to the director's appointment, including details of their skills and experience are made available to shareholders in the notice meeting.

## Performance Evaluation

The Company has written agreements in place with each director and executive setting out the terms of their appointment and outlining the key roles and responsibilities.

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of SCEE.

A review of the performance of the Board and key executives was performed during the year.

## Diversity

The Company is committed to being an equal opportunity employer, promoting and supporting a diverse workforce at all levels.

The Company has a formal Diversity Policy which encompasses ethnicity, gender, language, age, religion, socio-economic status, physical and mental ability, experience and education. A copy of the policy is available in the Corporate Governance Section of the Company's website.

The Board is committed to setting measurable objectives for maintaining a broad culture of diversity in our workplace. In this context, the Board does not consider it appropriate to disclose these objectives in respect of gender diversity, in keeping with the broad ambit of our Diversity Policy. Nevertheless, gender representation statistics are provided, for information, in line with the Corporate Governance Council's Recommendations.

Gender representation in the Company is as follows:

	30 June 2017		30 June 2016	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	0%	100%	0%	100%
Senior management representation	5%	95%	15%	85%
Group representation	6%	94%	11%	89%

The Company also has a formal indigenous strategy in both our Australian and international operations to encourage community engagement. This strategy outlines the Company's commitment to providing Indigenous employment opportunities, ongoing support, training and career development.

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## Principle 2 – Structure the Board to add value

### Board Composition

The members of the Board at the date of this Corporate Governance Statement are as follows:

<b>Name</b>	<b>Status</b>	<b>Term in office</b>
Derek Parkin	Independent Chairman	6 years, 2 years as Chairman
Graeme Dunn	Managing Director	1 year
Gianfranco Tomasi	Non-executive Director	38 years
Simon Buchhorn	Independent Non-Executive Director	2 years
Karl Paganin	Independent Non-Executive Director	2 years
David Hammond	Executive Director	Appointed March 2017

Details of all directors to have served during the year, their qualifications, the number of meetings of the Board held during the year and the attendees at those meetings can be found in the Directors' Report in the 2017 Annual Report.

### Independence

The ASX Principles recommend that the majority of the Board of a listed entity should be independent. The Company has not complied with this recommendation during the year.

Mr Dunn and Mr Hammond are not deemed to be independent as they are executives of the Company, Mr Tomasi is a significant shareholder of the Company and Mr Buchhorn was not deemed to be independent during the 2017 financial year as he had served as an executive of the Company within the past three years.

Mr Buchhorn ceased to serve in an executive capacity on 30 June 2014 and is deemed to be independent from 1 July 2017. As at the date of this report the Board comprises three independent and three non-independent directors.

The Board acknowledges this non-compliance but believes that the Board is appropriately sized and structured to operate efficiently in the current market environment without compromising its ability to act in the best interests of all shareholders.

The Company complies with the ASX Principles recommendation that the Chairman of the Board is an Independent director.

### Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee to provide advice, recommendations and assistance to the Board in respect of the composition of the Board and the identification and appointment of directors and senior executives.

The Committee operates under a charter approved by the Board. The charter sets out the Committees roles and responsibilities and is available in the Corporate Governance Section of the Company's website.

The members of the Committee at the date of this report are as follows:

- Karl Paganin (Chairman)
- Gianfranco Tomasi
- Derek Parkin

Details of all directors to have served on the Committee during the year, their qualifications, the number of meetings of the Committee held during the year and the attendees at those meetings can be found in the Directors' Report in the 2017 Annual Report.

All members of the Committee are non-executive directors and the majority are independent directors. The Committee Chairman is an independent director.

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## Board Skills and Experience

The composition of the Board is reviewed regularly to ensure that there is an appropriate balance of skills, experience and diversity to perform the Board's duties effectively.

The composition of the Board changed significantly as a result of the restructure that took place during the year. As part of the restructuring process the Board reassessed the key attributes that are required by the Board at this point in time and appointments were made to ensure that these were appropriately covered.

The table below sets out the key skills and experience of the Board at the current time:

Area	Skills and experience
Leadership	Executive leadership; Strategic thinking; Risk management; Commercial acumen
Finance and compliance	Financial and accounting; Legal; Corporate governance
Operational	Project delivery; Health and safety; Industrial relations; Human resources
Sector and geographical	Electrical and other contracting; Range of sectors; Domestic and international
Growth	Mergers and acquisitions; capital markets; business development

The Board will continue to monitor and evaluate the requirement for increased Independent representation and opportunities to add gender diversity to the Board.

The Company has process in place for inducting new directors and provides opportunities for directors to develop and maintain the knowledge and skills necessary to perform their roles. Directors are given the chance to meet regularly with management of the Company and the Board operates an annual program of director site visits.

## Principle 3 – Act ethically and responsibly

The Company has a written Code of Conduct which sets ethical standards for the directors, senior executives and employees of the Company to ensure that their duties and responsibilities to the Company are performed with integrity.

The Company also has an Anti-bribery and Corruption policy and a Whistleblower policy.

Copies of all of these policies can be found in the Corporate Governance Section of the Company's website.

## Principle 4 – Safeguard integrity in corporate reporting

### Audit and Risk Management Committee

The Board has delegated responsibility for monitoring and reviewing the integrity of financial statement and the effectiveness of internal controls to an Audit and Risk Management Committee.

The Committee operates under a charter approved by the Board. The charter sets out the Committees roles and responsibilities and is available in the Corporate Governance Section of the Company's website.

The members of the Committee at the date of this report are as follows:

- Derek Parkin (Chairman)
- Simon Buchhorn
- Karl Paganin

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Details of all directors to have served on the Committee during the year, their qualifications, the number of meetings of the Committee held during the year and the attendees at those meetings can be found in the Directors' Report in the 2017 Annual Report.

All members of the Audit and Risk Management Committee are non-executive directors and the majority are independent directors. The Committee Chairman is an independent director.

Prof Parkin, who is the Committee Chairman, is also Chairman of the Board. As a result the company is not in compliance with the ASX Principle recommendation that the Chair of the Audit Committee is not the Chair of the Board. The Board acknowledges this non-compliance but believes that at the present time Prof Parkin is the most appropriate choice as Chair of the Committee given his extensive accounting and finance experience.

## CEO and CFO Declaration

Prior to approving the financial statements of the Company the Board receives a declaration from the Chief Executive Officer and Chief Financial Officer that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Auditor Attendance at AGM

The Company's auditor attends the Annual General Meeting and are available to answer questions from shareholders relevant to the audit.

## Principle 5 – Make timely and balanced disclosure

The Company is required to make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price of its securities.

The Company has a written Continuous Disclosure policy designed to ensure compliance with the ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance.

A copy of the Continuous Disclosure policy is available in the Corporate Governance Section of the Company's website.

## Principle 6 – Respect the rights of security holders

The Company has a written Shareholder Communication Policy aimed at providing a framework for communications with shareholders. This includes providing an opportunity to ask questions of the Board at the Annual General Meeting where shareholder participation is encouraged.

A copy of this policy is available in the Corporate Governance Section of the Company's website.

The Company's ASX releases, Annual and Half Year Reports and key corporate information, including share registry details, are published on the Company's website. Shareholders can register to receive communications electronically.

An investor relations program is implemented annually and in the current year included half year and full year results briefings and meetings with investors and analysts.

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## Principle 7 – Recognise and manage risk

The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations.

### Audit and Risk Management Committee

The Board has delegated responsibility for establishing and maintaining a risk management framework to the Audit and Risk Management Committee. The Committee reports periodically to the full Board. Further details of the Committee can be found in Principle 4 above.

### Review of Risk Management Framework

The Company's risk management framework is continually evolving in order to maintain relevance to the businesses operations and risk exposure.

The risk management framework is reviewed at least annually by the Audit and Risk Management Committee. The review performed in the current year considered the risk management framework to be appropriate at the present time.

### Internal Audit

The Company did not have a formal internal audit function in place during the 2017 financial year but compliance with key processes including health and safety and the risk framework were audited periodically by the Company's quality assurance function.

The Board believes that this approach is sufficient at the present time but intends to implement a formalised internal audit structure in the coming year to ensure that the Company's risk management and internal control processes continue to be effective as the business grows and evolves.

### Exposure to Material Risk

The Company does not have any material exposure to economic, environmental and social sustainability risks other than general market risks as discussed in the Managing Director's Operating and Financial Review in the 2017 Annual Report.

## Principle 8 – Remunerate fairly and responsibility

### Nomination and Remuneration Committee

The Board is responsible for determining and reviewing compensation arrangements for the Board and the executive team.

The Board has established a Nomination and Remuneration Committee to provide advice and recommendations with respect to remuneration matters. Further details of the Committee can be found in Principle 2 above.

### Remuneration Policies and Practices

The Company has separate policies and practices for the remuneration of non-executive directors and executive directors and senior management. Full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period is contained within the Remuneration Report in the 2017 Annual Report.

The Company has a Share Trading Policy which prohibits participants in the company's equity-based long term incentive scheme from entering into transactions (such as the use of derivative products) to limit the economic risk of participating in the scheme. A copy of the policy is available in the Corporate Governance Section of the Company's website.