

---

# Corporate Governance Statement

## Approach to Corporate Governance

GR Engineering Services Ltd ABN 12 121 542 738 (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3<sup>rd</sup> Edition (**Principles & Recommendations**). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at [www.gres.com.au](http://www.gres.com.au), under the section marked "Corporate Governance":

### Charters

Board  
Audit and Risk Committee  
Nomination and Remuneration Committee

### Policies and Procedures

Process for Performance Evaluations  
Policy and Procedure for the Selection and (Re)Appointment of Directors  
Induction Program  
Diversity Policy (summary)  
Code of Conduct (summary)  
Policy on Continuous Disclosure (summary)  
Compliance Procedures (summary)  
Shareholder Communication and Investor Relations Policy  
Securities Trading Policy  
Policy and Procedure for Directors  
Risk Management Policy  
Selection, Appointment and Rotation of External Auditors  
Equity Incentive Plan Rules

The Company reports below on whether it has followed each of the recommendations during the 2017/2018 financial year (**Reporting Period**). The information in this statement is current at 12 October 2018. This statement was approved by a resolution of the Board on 21 August 2018.

Cross-references to the Company's Annual Report in this statement are references to the Company's Annual Report for the year ended 30 June 2018, which is disclosed on the Company's website [www.gres.com.au](http://www.gres.com.au), under the section marked "Investors".

## **Principle 1 – Lay solid foundations for management and oversight**

### **Recommendation 1.1**

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management and has documented this in its *Board Charter*.

### **Recommendation 1.2**

The Company undertakes appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The checks which are undertaken, and the information provided to shareholders are set out in the Company's *Policy and Procedure for the Selection and (Re) Appointment of Directors*.

### **Recommendation 1.3**

The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Managing Director, any of its directors, and any other person or entity who is related party of the Managing Director or any of its directors has been disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

### **Recommendation 1.4**

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board as outlined in the Company's *Board Charter*.

### **Recommendation 1.5**

The Company has a Diversity Policy, which includes requirements for the Nomination and Remuneration Committee to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them. A summary of the Company's Diversity Policy is disclosed on the Company's website.

The following measurable objective for achieving gender diversity has been set by the Nomination and Remuneration Committee in accordance with the Diversity Policy:

*“Subject to the identification of suitable qualified candidates, to increase the percentage of professional and senior executive positions occupied by women to 15% by 30 June 2019.”*

The Board continues to work towards meeting this objective and continues to foster a workplace environment and recruitment policies designed to achieve greater female participation in the Company's workforce.

The respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out in the following table. “Senior executive” for these purposes means a person who is a Key Management Employee, a General Manager or a member of management:

	Proportion of women
Whole organisation	54 out of 402 (13%) (13% as at 30 June 2017)
Senior executive positions	10 out of 67 (15%) (17% as at 30 June 2017)
Board	0 out of 6 (0%) (0% as at 30 June 2017)

### Recommendation 1.6

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Chair is also responsible for evaluating the Managing Director.

The Chair evaluates the performance of the Managing Director and other Board members through a series of discussions held throughout the year. These discussions include an assessment of the Company's state of affairs, the risks facing the Company and its economic objectives. The Chair evaluates the extent to which each director has contributed to the efficient utilisation of resources, the identification of risk and the achievement of economic objectives. During these discussions the Chair also elicits confidential feedback from each Director on their view of the interpersonal dynamics between Board members and the quality of the Board's decision making.

During the Reporting Period the Chair evaluated the performance of all Directors, including the Managing Director, in accordance with the above process.

### Recommendation 1.7

The Managing Director is responsible for evaluating the performance of senior executives in accordance with the process disclosed in the Company's *Process for Performance Evaluations*.

During the Reporting Period the Managing Director conducted performance evaluations of Senior Executives. Where these evaluations resulted in the identification of areas where the Senior Executive's technical or interpersonal skills could be strengthened, appropriate training or remedial action was formulated and agreed.

## Principle 2 – Structure the board to add value

### Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprising Phillip Lockyer (Chair), Barry Patterson, Terrence Strapp and Peter Hood. All members of the Nomination and Remuneration Committee are non-executive directors and all members are independent directors. Accordingly, the Nomination and Remuneration Committee is structured in accordance with Recommendation 2.1.

The Board has adopted a Nomination and Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Nomination and Remuneration Committee and is disclosed on the Company's website.

### Recommendation 2.2

The mix of skills and diversity that the Board currently has is a Board comprised of 5 qualified engineers and 1 qualified accountant. The matrix of skills held by the Board is weighted towards those skills which are required to identify, assess, quantify and manage those risks which are most relevant to and prevalent in the Company's business and the industry in which it operates.

All of the Company's directors hold, or have held, positions on the boards of other publicly listed companies and all have extensive experience in the management of organisations across a range of industries.

When necessary, the Board engages the services of external experts and consultants to augment its capacity to consider and assess matters which fall outside the domain of its collective expertise.

### **Recommendation 2.3**

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations. The independent directors of the Company are Messrs Lockyer, Patterson (deemed independent), Strapp and Hood.

Mr Patterson is a substantial shareholder of the Company. Notwithstanding that he is a substantial shareholder the Board considers Mr Patterson to be an independent director because he is not a member of management and is otherwise free of any interest, position, association or relationship (including those listed in Box 2.3 of the Principles & Recommendations) that might influence in a material respect, his capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its members generally. Further, Mr Patterson's interests as a substantial shareholder are considered by the Board to be in line with the interests of all other shareholders.

The length of service of each director is set out in the Directors' Report of the Company's Annual Financial Report.

### **Recommendation 2.4**

The Board has a majority of directors who are independent.

The Board is comprised of 6 directors 4 of whom are or are deemed to be independent. The two non-independent directors are Tony Patrizi and Geoff Jones. Tony Patrizi is a founding shareholders of the Company and Geoff Jones has been employed by the Company since 2011, initially as Chief Operating Officer and since 1 July 2013, as Managing Director. Messrs Patrizi and Jones have thorough knowledge of the Company's business and extensive experience in managing the risks it faces. Their continued presence on the Board is therefore highly valued.

The Board is of a size commensurate with the size and nature of the Company. Should the number of Board members increase, it is the intention of the Company to appoint an additional independent director thereby preserving a majority of independent directors.

### **Recommendation 2.5**

The Chair of the Board is Phillip Lockyer. Mr Lockyer is an independent director and is not the Chief Executive Officer.

### **Recommendation 2.6**

The Company has an induction program for new directors and senior executives. The goal of the program is to assist new directors to participate fully and actively in Board decision-making at the earliest opportunity and to assist senior executives to participate fully and actively in management decision-making at the earliest opportunity. The Company's *Induction Program* is disclosed on the Company's website.

The Nomination and Remuneration Committee regularly reviews whether the directors as a group have the skills, knowledge and familiarity with the Company and its operating environment required to fulfil their role on the Board and the Board committees effectively using a Board skills matrix. Where any gaps are identified, the Nomination and Remuneration Committee considers what training or development should be undertaken to fill those gaps. In particular, the Nomination and Remuneration Committee ensures that any director who does not have specialist accounting skills or knowledge has a sufficient understanding of accounting matters to fulfil his or her responsibilities in relation to the Company's financial statements. Directors also receive ongoing briefings from the Company Secretary and Chief Financial Officer on developments in accounting standards.

## **Principle 3 – Act ethically and responsibly**

### **Recommendation 3.1**

The Company has established a Code of Conduct for its directors, senior executives and employees, which is disclosed on the Company's website.

## **Principle 4 – Safeguard integrity in corporate reporting**

### **Recommendation 4.1**

The Board has established an Audit and Risk Committee. The members of the Audit and Risk Committee are Messrs Strapp (Chairman), Patterson and Hood. All members of the Audit and Risk Committee are independent non-executive directors and the Audit and Risk Committee is chaired by Mr Strapp who is not also Chairman of the Board. Accordingly, the Audit and Risk Committee is structured in compliance with Recommendation 4.1.

Terrence Strapp (*CPA, SFFin, MAICD*) is a Certified Practicing Accountant and has extensive experience in banking, finance and corporate risk management. Mr Strapp has extensive experience in the preparation and interpretation of financial statements and information.

Peter Hood (*BE (Chem), MAustIMM, FChemE, FAICD*) is a Chemical Engineer and was formerly the Chief Executive Officer of Coogee Chemicals and Coogee Resources. He is Chairman of the International Chamber of Commerce National Committee of Australia and is past President of the Australian Chamber of Commerce and Industry and Immediate Past President of the Chamber of Commerce and Industry Western Australia. Peter is currently Chairman of Matrix Composites and Engineering Limited and Lead Independent Director of Cue Energy Resources Limited. His broad based commercial experience includes the interpretation of financial statements and information.

Barry Patterson (*ASMM, MIMM, FAICD*) is a mining engineer with over 50 years' experience in mining and mining services. He was formerly non-executive Chairman of Sonic Healthcare Limited and Silex Systems Limited and is a non-executive director of Dacian Gold Limited. His broad based commercial experience includes the interpretation of financial statements and information.

The Company has also established a Procedure for the Selection, Appointment and Rotation of its External Auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Audit and Risk Committee held two separate meetings during the year.

The Board has adopted an Audit and Risk Committee Charter which describes the Audit and Risk Committee's role, composition, functions and responsibilities, which is disclosed on the Company's website.

### **Recommendation 4.2**

Before the Board approved the Company financial statements for the half year ended 31 December 2017 and the full-year ended 30 June 2018, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated 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.

### **Recommendation 4.3**

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, and to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company writes to the Company's auditor to inform them of the date of the Company's annual general meeting. In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor or their representative is at the meeting, the Chair allows a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair also allows a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

A representative of the Company's auditor, Deloitte Touche Tohmatsu attended the Company's annual general meeting held on 14 November 2017.

## **Principle 5 – Make timely and balanced disclosure**

### **Recommendation 5.1**

The Company has established written policies and procedures for complying with its continuous disclosure obligations under the ASX Listing Rules. A summary of the Company's *Policy on Continuous Disclosure and Compliance Procedures* are disclosed on the Company's website at [www.gres.com.au](http://www.gres.com.au).

## **Principle 6 – Respect the rights of security holders**

### **Recommendation 6.1**

The Company provides information about itself and its governance to investors via its website at [www.gres.com.au](http://www.gres.com.au) as set out in its *Shareholder Communication and Investor Relations Policy*.

### **Recommendation 6.2**

The Company has designed and implemented an investor relations program to facilitate effective two-way communication with investors. The program is set out in the Company's *Shareholder Communication and Investor Relations Policy*.

### **Recommendation 6.3**

The Company has in place a *Shareholder Communication and Investor Relations Policy* which outlines the policies and processes that it has in place to facilitate and encourage participation at meetings of shareholders.

### **Recommendation 6.4**

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. This is facilitated through the Company's website which provides access to the Company's and its share registry's full range of contact details, including email address.

## **Principle 7 – Recognise and manage risk**

### **Recommendation 7.1**

As noted above, the Board has established a combined Audit and Risk Committee. The Audit and Risk Committee is structured in accordance with Recommendation 7.1. Please refer to the disclosure above in relation to Recommendation 4.1 in relation to the Audit and Risk Committee.

### **Recommendation 7.2**

The Audit and Risk Committee reviews the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board.

### **Recommendation 7.3**

The Company does not have an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's *Risk Management Policy*.

### **Recommendation 7.4**

The Company provides engineering and construction services to the mining industry and operations and maintenance services to the oil and gas industry, including producers of coal seam gas. These activities expose the Company, directly and indirectly to environmental, social and economic sustainability risks, which may materially impact the Company's ability to create or preserve value for shareholders over the short, medium or long term.

In relation to the provision of goods and services, these risks are mitigated by virtue of the Company entering a project's life cycle at a stage where all environmental, social and economic requirements of the relevant jurisdiction have been met by the client. The Company does not provide goods and services in circumstances where this is not the case and to that extent, the Company is in a position to continue its business activities in an environmentally, socially and economically sustainable manner.

In relation to the Company's suppliers, the Company takes due care to ensure that the goods and services required for the conduct of its business are sourced from entities which act fairly and responsibly within the environments, societies and economies in which they operate thereby mitigating sustainability risks in relation to these factors.

The Company aims to operate in a socially sustainable way by engaging with the local communities and wherever possible providing employment and training opportunities to members of the local community. In doing so, the Company operates within the framework of local norms and customs and endeavours to ensure that its clients do likewise. The Company will not participate in any activity where it is likely to receive either directly or indirectly, economic benefit through the exploitation of others.

## **Principle 8 – Remunerate fairly and responsibly**

### **Recommendation 8.1**

As noted above in relation to Recommendation 2.1, the Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration Committee is structured in compliance

with Recommendation 8.1. Please refer to the disclosure above in relation to Recommendation 2.1 in relation to the Nomination and Remuneration Committee.

### **Recommendation 8.2**

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report in the Company's Annual Report. This disclosure includes a summary of the Company's policies regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Under the terms of the GR Engineering Services Limited Equity Incentive Plan (Plan), if in the opinion of the Board a participant acts fraudulently or dishonestly or wilfully breaches his or her duties to the Company, the Board may in its absolute discretion determine that all unvested or unexercised performance rights or share appreciation rights held by the participant will lapse.

In addition to the provisions under the Plan, the Board has adopted a clawback policy in relation to any cash bonuses or shares issued pursuant to the Plan. Under this policy the Board reserves the right to take action to reduce, recoup or otherwise adjust the employees performance based remuneration in circumstances where in the opinion of the Board, an employee has acted fraudulently or dishonestly or has wilfully breached his or her duties to the Company.

### **Recommendation 8.3**

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting participants in the Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Plan.