

## 2016 CORPORATE GOVERNANCE STATEMENT

SMS Management & Technology Limited (Company) supports the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles"). The Board of the Company (Board) has approved this Corporate Governance Statement which is current as at 10 August 2016 and considers that the Company's corporate governance framework and practices have complied with the ASX Principles for the FY 2016 financial year.

Further information on the Company's corporate governance policies and practices can be found at <http://www.smsmt.com/investor/corporate-governance>.

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

#### Role of the Board and Management

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Company and its controlled entities (Group) including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal controls, legal compliance and management information systems. The Board is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Group to the CEO and executive management. Responsibilities are defined by a formal Delegations of Authority Policy; any changes to which need to be reviewed and approved by the Board.

The Board has adopted a Charter that sets out, among other things, its specific powers and responsibilities and the matters delegated to the CEO and those reserved to the Board. Information regarding the Charter can be found at <http://www.smsmt.com/investor/corporate-governance>.

#### Directors and Secretaries

Prior to the appointment of a new Director appropriate checks are undertaken and security holders are provided with all material information in the Company's possession relevant to a decision on whether or not to elect or re-elect a Director through the relevant Notice of Meeting.

The Company currently has written agreements with each Director and senior executive setting out the terms of their appointment. The letter of appointment, which the Company has entered into with each of its Non-executive Directors, addresses such things as expectations of attendance and preparation for Board meetings, minimum hourly commitments, appointments to other Boards, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The Company Secretaries are accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

## Diversity

The Company recognises that its people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Company's diversity and inclusion program underpins how our staff work every day. Our staff succeed irrespective of gender, ethnicity, generation, flexible work status, sexual orientation or disability. The Company believes that diversity of thought, backgrounds and experiences of our staff, strengthens relationships and delivers meaningful benefits to our people and clients. The Company acknowledges that continued investment in diversity and inclusion will enhance the delivery excellence to clients and better returns to its shareholders.

The Company has a diversity policy which includes a requirement that the Board set measurable objectives for achieving diversity, including gender diversity, and to assess annually both the objectives and progress in achieving them. The Company's Diversity Policy can be found at <http://www.smsmt.com/investor/corporate-governance>.

Our commitment to diversity has continued over the course of the past year through the promotion of an inclusive workplace culture. We value and respect the broad and innovative ideas and contributions that people with diverse backgrounds deliver both internally and to our equally diverse clients.

Each year, the Board sets measurable objectives to progress our diversity and inclusion goals. The objectives are renewed annually after considering progress against objectives from the prior year. Progress against each year's measurable objectives will continue to be disclosed in the Corporate Governance Statement together with the proportion of women represented across the Group.

The measurable objectives for 2016 and our progress to date where relevant included:

- continue to oversee and guide the practical activity undertaken in each location to promote an inclusive culture;  
There have been regular progress meetings with the Diversity Inclusion and Implementation Group to understand the initiatives in each location, such as the International Food Day, the Cultural Photograph competition and the International Women's Day.
- review the promotion of diversity in leadership through Male Champions of Change program;  
This will be a key focus for 2017.
- continue to proactively analyse and address potential gender pay differences that may exist;  
This has been actioned through the annual salary review process ensuring that all gaps are analysed. Reviews include those on maternity leave.
- introduce new initiatives to support age diversity in the context of a career progression model;  
This will be a key focus for 2017.
- promote an approach to blended teams across age and cultural diversity to support innovation and knowledge sharing.  
An online e-learning tool was launched in 2016 which trains management on unconscious bias to ensure that best skills are selected for roles irrespective of gender, ethnicity, sexual orientation or disability.

Gender diversity remains a key challenge for the Company. The representation of women has remained consistent over the past three years. Through increased education of our leaders, and with promotion of gender diversity and inclusivity in our recruitment process, we have been able to maintain our female graduate intake as 33% in 2013, 38% in 2014, 33% in 2015, and 33% in 2016. The number of women making up our total workforce is currently 32%, exceeding the IT industry technical and professional average which is reported to be 28%<sup>1</sup>.

<sup>1</sup> in the "Australia's Digital Pulse" report prepared by Deloitte Access Economics in conjunction with the Australian Computer Society in 2015.

Our progress with gender balance in the SMS workforce can be measured below:

	2016		2015	
	Female	Male	Female	Male
Board	40%	60%	40%	60%
Executive and CEO <sup>2</sup>	13%	87%	20%	80%
Staff	32%	68%	30%	70%

<sup>2</sup> Executive are the direct reports to the CEO.

The measurable objectives for FY 2017 are:

- continue to oversee and guide the practical activity undertaken within each functional area to promote an inclusive culture;
- promotion of diversity in leadership by the Male Champions of Change program;
- continue to proactively analyse and address potential gender pay differences that may exist across role types;
- introduce new initiatives to support age diversity in the context of a career progression model; and
- promote an approach to blended teams across age and cultural diversity to support innovation and knowledge sharing.

Further to the Company's focus on the importance of gender mix within the Group, as a talent partner to leading organisations, M&T Resources has continued the diversity initiative to leverage the opportunity to contribute to greater diversity in Australian workplaces.

M&T Resources' diversity events provide the space for employers and the broader candidate market to share ideas. M&T Resources continued during the reporting period with a diversity partner to deliver 'Women in IT' breakfast seminars to promote a gender diversity network.

M&T Resources will continue its diversity initiative through partnerships to offer pro-bono mentorships and encourage technology studies uptake amongst young Australians.

### **Board, Committee and Senior Executive Performance Evaluation**

The Board's Charter states that the Board will conduct annual reviews of both individual Board members and the performance of the Board as a whole. In the current reporting period performance evaluations were undertaken of the Board as a whole and of each individual Non-executive Director. Directors provided written feedback in relation to the performance of the Board and individual Non-executive Directors against a set of agreed criteria. Feedback was collected by the Chairman of the Board via the Company Secretary.

The Board has discussed the results of the Board evaluation. The results confirmed that the Board is functioning in an appropriate manner although areas for improvement were identified. The results of the individual Non-executive Director evaluation have been provided to the relevant Director and the Chairman and in respect of the Chairman to the Chairman of the Audit, Risk and Compliance committee. A discussion with each Director will occur with the relevant Chairman, to the extent considered appropriate or necessary.

A review of the Board committees will take place in the next reporting year. It is anticipated that the review will be undertaken in a similar manner which will involve written feedback against a set of agreed criteria.

As part of the Board's oversight role, the Board undertakes a review of the CEO on at least an annual basis. Objectives for the CEO are approved by the Board after they have been established between the CEO and the Chairman. These objectives are aligned against a range of criteria including financial goals, completion of key performance measures and adherence to the Company's values. The CEO undertakes a review of senior management and reports the material outcomes of such reviews to the Board. The CEO, with input from the Board, sets the objectives for the senior management team. A review of the CEO and senior management occurred during the reporting period.

## **Principle 2: Structure the Board to add value**

### **Board**

The Company's Constitution provides that the Board not comprise of more than eight Directors. The Board currently comprises six Directors being five Non-executive Directors and the CEO.

The names of the Directors of the Company in office at the date of this statement are set out on pages 24 and 25 of the 2016 Annual Report.

The Board is structured to bring a range of skills, experience, expertise and diversity to the Company. The qualifications, expertise, experience and period in office of each Director are contained on pages 24 and 25 of the 2016 Annual Report.

The composition of the Board is determined using the following principles:

- a minimum of three Directors, with a broad range of expertise;
- a majority of Non-executive Directors; and
- a Non-executive independent Director is appointed as Chairperson.

The agenda for meetings is prepared in conjunction with the Chairman, CEO, CFO and Company Secretary. Standing items include the CEO's report, CFO's report, operational reports, and governance. Executives are regularly involved in Board discussions and Directors have other opportunities for contact with a wider group of employees.

### **Remuneration and Nominations Committee**

The Board carries out a number of its duties and responsibilities through the Remuneration and Nominations Committee and the Audit, Risk and Compliance Committee.

The Remuneration and Nominations Committee comprised the following members during the year, all of whom were Non-executive Directors:

Derek Young (Chairman)  
Bruce Thompson  
Nicole Birrell  
Deb Radford  
Justin Milne

The composition of the Committee complies with the ASX Principles. The Board policy is that the Committee will only comprise independent Non-executive Directors. The CEO and the Director, People & Culture are invited to the Committee meetings, as required, to discuss executives' performance and remuneration, but are not in attendance when matters pertaining to themselves are discussed.

The Committee oversees the appointment process for Directors and the selection, appointment and succession planning process for the Company's CEO. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position assisted by the Board Skills Matrix. When a vacancy exists or there is a need for particular skills, the Committee, and in turn, the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates where appropriate, with advice from an external consultant. The Board then appoints the most suitable candidate. Board appointees must stand for election at the next general meeting of shareholders.

The Committee reviews and makes recommendations to the Board on remuneration and policies applicable to the Directors, CEO and executives. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The Committee's Charter can be found at <http://www.smsmt.com/investor/corporate-governance>.

The number of times the Committee met during the reporting period and the individual attendances of its members at those meetings is set out on page 26 of the 2016 Annual Report.

### **Independence of Directors**

As required under the Board's Charter and the ASX Principles, the Board comprises a majority of independent Non-executive Directors. An independent Director is a Director who is not a member of management (a Non-executive Director) and who:

- holds less than five percent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the Company;
- within the past three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- within the past three years has not been a principal or employee of a material\* professional adviser or a material\* consultant to the Company or another Group member;
- is not a material\* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material\* supplier or customer;
- has no material\* contractual relationship with the Company or another Group member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially\* interfere with the Director's ability to act in the best interests of the Company; and
- has not had their independence compromised by the length of their tenure preventing them from being able to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its security holders.

\* The Board considers 'material' in this context, where any Director-related business relationship has represented, or is likely in the future to represent, the lesser of at least ten percent of the relevant segment's or the Director-related business' revenue. The Board considers the nature of the relevant industries' competition, and the size and nature of each Director-related business relationship, in arriving at this threshold.

The Board considers all members other than the CEO to be independent. The Board has considered the tenure of each member and is satisfied that all members are independent.

The Board has adopted a policy that going forward Non-executive Directors' tenure will be limited to a maximum of three three-year terms. Thereafter they will retire from the Board. If a Non-executive Director is appointed Chairman during the last of their three year terms, then the Board will have the discretion to resolve a further period of service. There will be a transition period required in adopting this policy with respect to the current Board, noting certain current Board members' tenure exceeds this newly adopted policy. The Board believes this policy will promote Board renewal and is relevant to, but not determinative of, the issue of independence.

### **Board Skills Matrix**

The Board considers it important to maintain an appropriate mix of skills, experience, expertise and diversity in its membership to ensure that it is able to meet the present and future needs of the Company. The Board has developed a Board Skills Matrix which sets out the mix of skills, experience and expertise that the Board considers relevant to the membership of the Board. The skills, experience and expertise and their relative importance to the Company are set out in the table below.

<b>Skills, Experience and Expertise</b>	<b>Importance</b>
Professional Services & Consulting, Information Technology, Governance and People & Culture	Very Important
Business/Commercial, Leadership, Strategy Development & Planning, Business Innovation and Sales	Important
Marketing, Finance/Accounting, Risk Management, Investment/Capital Management, Legal, Corporate Social Responsibility, International Experience and Public Relations/Communication/Investor Relations	Relevant

Each member of the Board has undertaken a self-assessment against the skills, experience and expertise and rated themselves and this has been reflected in the Matrix and discussed with the rest of the Board.

The Board is of the view that collectively each of these areas is currently well represented on the Board. In respect of diversity, the Board recognises the benefit of having, and looks to achieve in its membership, varying backgrounds, attributes and gender representation.

### **Induction and Professional development**

The Company has a program for inducting new Directors. It comprises educating new Directors about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of Directors. In addition, Directors are also educated regarding meeting arrangements and Director interaction with each other, executives and other stakeholders. Directors have the opportunity to visit Group offices and meet with management to gain a better understanding of business operations.

The Group has a formal process to educate new executives upon taking up such positions. The induction program includes reviewing the Group's structure, strategy, operations and financial position. It familiarises the individual with the respective rights, duties, responsibilities and roles of the individual, executive management and the Board.

The Directors are expected to undertake any necessary continuing professional education to enable them to discharge their duties. However, the Company has offered the Directors, through the Company Secretary, the opportunity to be advised of various professional development opportunities should they request it. In addition, from time to time relevant professional development opportunities are provided by the Company to the Board.

## **Independent professional advice and access to Company information**

Each Director has the right of access to all relevant Group information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The Director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. The advice received by the Director is made available to all other members of the Board.

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

The Company considers its reputation one of its most valuable assets, founded largely on the ethical behaviour of its people.

The Board has approved a Code of Conduct (Code) that sets out principles of ethical behaviour for all Group personnel.

The Group has advised each Director, executive and employee that they must comply with the Code. The Code covers:

- aligning the behaviour of the Board and management with the Code by maintaining appropriate core Group values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- fulfilling responsibilities to clients by maintaining high standards of quality, service standards and commitments to value;
- employment practices such as work health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- managing actual or potential conflicts of interest;
- corporate opportunities such as preventing Directors and executives from taking advantage of property, information or position for personal gain;
- reporting of unlawful or unethical behaviour including protection of those who report violations in good faith; and
- the processes for monitoring and ensuring compliance with the Code.

The Code can be found at <http://www.smsmt.com/investor/corporate-governance>.

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

The Board has established an Audit, Risk and Compliance Committee which assists the Board in the effective discharge of its responsibilities for corporate reporting, including financial reporting, internal controls, risk management, external audit and insurance (with the exception of Directors' and Officers' insurance).

The composition and structure of the Audit, Risk and Compliance Committee complies with the ASX Principles.

The Audit, Risk and Compliance Committee has a Charter, approved by the Board. A copy of the Committee's Charter can be found at <http://www.smsmt.com/investor/corporate-governance>.

All members must be Non-executive Directors with a majority being independent. The Chairman of the Board may not be the Chairman of the Committee. The Committee comprised the following members during the year, all of whom were Non-executive Directors:

Bruce Thompson (Chairman)  
Nicole Birrell  
Deb Radford  
Justin Milne

The external auditor, the Chairman of the Board, the CEO and CFO are invited to meetings at the discretion of the Committee.

The relevant qualifications and experience of the members of the Committee are set out on pages 24 and 25 of the 2016 Annual Report. The number of times the Committee met during the reporting period and the individual attendances of its members at those meetings are set out on page 26 of the 2016 Annual Report.

A summary of the Committee's role and responsibilities together with information on procedures for the selection and appointment of the external auditor, and for the rotation of the external audit engagement partner, can be found at <http://www.smsmt.com/investor/corporate-governance>.

The responsibilities of the Audit, Risk and Compliance Committee include reporting to the Board on:

- the annual, half-year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with AASBs, and assessing whether the financial information is adequate for shareholder needs;
- managing processes supporting external reporting;
- corporate risk assessment processes;
- the performance and objectivity of the internal audit processes where applicable;
- establishing procedures for selecting, appointing and if necessary removing the external auditor;
- whether the provision of the non-audit services provided by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- the adequacy of the internal control framework and the Company's code of ethical standards;
- organising and reviewing special reviews or investigations deemed necessary by the Board;
- fraud and monitoring prompt and appropriate rectification of any deficiencies or breakdowns;
- the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- any matters outstanding with auditors, Australian Taxation Office ("ATO"), Australian Securities and Investments Commission ("ASIC"), ASX and financial institutions.

The Audit, Risk and Compliance Committee reviews the performance of the external auditor on an annual basis and normally meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- review the half-year and preliminary final report prior to lodgement with the ASX, consider any significant adjustments required as a result of the auditor's findings and to recommend Board approval of these documents, prior to announcement of results;
- review the draft financial report and recommend Board approval of the financial report; and
- organise, review and report on any special reviews or investigations deemed necessary by the Board.

For the annual and half-year results, the CEO and CFO have provided a written declaration to the Board in accordance with section 295A of the Corporations Act ("Declaration"), stating that, the Company's financial report gives a true and fair view of the Company's financial position and performance and complies with Australian Accounting Standards ("AASBs"). The Declaration also provides assurance that the Company's financial records have been properly maintained. The Declaration states that to the best of their knowledge and belief it is founded on a sound system of risk management and internal control and that the system is operating effectively.

The external auditor attends the Annual General Meeting to answer any questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

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

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001. Subject to limited exceptions, the Company must immediately notify the market, through the ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its securities. To this end, the Company has a Continuous Disclosure Policy, a summary of which can be found at <http://www.smsmt.com/investor/corporate-governance>.

The Company's ASX announcements are available after they are released to ASX on the Company's website at <http://www.smsmt.com/investor/asx-announcements>.

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

Respecting the rights of shareholders is of fundamental importance to the Company and a key element of this is how the Company communicates with its shareholders. To this end, the Company recognises that shareholders must receive relevant information in a timely manner in order to be able to properly and effectively exercise their rights as shareholders.

The Company provides information about itself and its governance to investors via its website. Shareholders have the option to receive communications from and send communications to the Company and its security registry electronically. Information regarding the Company's Communications Statement, can be found at <http://www.smsmt.com/investor/corporate-governance>.

The Company communicates with its investors on three main occasions during the year. These are at the release of its half-year and full-year results and at the AGM. The Company holds a results briefing at the release of each of the half-year and full-year results and those briefings are open to all investors, analysts and other interested stakeholders. Participants have the opportunity to ask questions of the Company.

The Company may also present at other forums during the year. Presentation materials are lodged with ASX and placed on the Company's website so that all investors have the benefit of what the Company presents.

During the year, the Company also meets with investors and other market participants upon request within the parameters of its Continuous Disclosure policy. This interaction with investors and other market participants allows the Company to obtain an understanding of the areas of interest or matters for concern. These are then considered by management and where relevant communicated to the Board.

The Board encourages full participation of shareholders at the AGM, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. There is an opportunity to ask questions on the business of the Company, its financial results and specific business of the meeting at the AGM.

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

The Audit, Risk and Compliance Committee is responsible for overseeing risk. Details of the composition of the Committee, the frequency of its meetings and its charter can be found under Principle 4.

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and management has reported that those risks are being managed effectively.

#### **Risk Management System**

The Board has approved a Risk Management Policy (Policy), Risk Management Framework (Framework) and Risk Management Process (Process) to oversee and manage risk. The Policy recognises that taking risk is an integral and necessary part of doing business, however, unless risk is managed effectively, it can lead to significant adverse consequences.

The Framework provides a formalised and visible process to identify risk exposure and to provide assurance that these exposures are being controlled adequately. The Framework and Process contain the practical process and tools to support consistent implementation of the Policy, including roles and responsibilities, and the approach for risk analysis, including identifying, assessing, responding to and monitoring risks.

Material business risks for the Group may arise from such matters as actions by competitors, government policy changes, workplace health and safety, property, financial reporting, data security and the purchase, development and use of information systems.

All material risks are recorded on the Group Risk Register which is reviewed by the Audit, Risk and Compliance Committee. The Register identifies risks as strategic, human resources, operational, legal and regulatory and financial with relevant business owners assigned to ensure management and monitoring of the risks.

The Audit, Risk and Compliance Committee undertook a review of the Company's risk management framework during the reporting period.

The Company's Policy can be accessed at <http://www.smsmt.com/investor/corporate-governance>.

## **Risk management, compliance and control**

The Company does not have an internal audit function. The Board and the Audit, Risk and Compliance Committee monitor and evaluate internal risks through a variety of existing systems, programs and policies including:

- a Delegations of Authority policy, including approval limits for operational and capital expenditure;
- an annual insurance program;
- annual budgeting and monthly reporting systems to monitor performance against budget targets;
- external financial audits;
- written reports from key executives at each Board meeting;
- an identification and assessment of strategic risks through an annual review; and
- workplace health and safety reviews and reporting to the Board.

The Company does not have any material exposure to environmental and social sustainability risks.

The key economic risk to which the Company has a material exposure is economic downturn. Global or localised weak economic conditions or business sentiment may lead to clients suspending, deferring or terminating contracts. This risk is partially mitigated as the workforce can be reduced through attrition and selective retrenchment. The Company is seeking to grow its multi-year contracts and managed services revenue in order to mitigate cyclical market movements.

The Group strives to ensure that its services are of the highest standard. Towards this aim, the Group has gained national certification under AS/NZS ISO 9001:2008 Quality Management Systems.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Group's internal compliance and control systems include:

- operating unit controls - operating/business units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals;
- functional speciality reporting - key areas subject to regular reporting to the Board include Finance and IT, Legal, Human Resources and Company Secretarial; and
- investment appraisal - guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size are subject to prior Board approval;
- financial exposures are controlled with policies concerning close monitoring of investment activities;
- workplace health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;

- the quality and integrity of personnel are maintained; and
- financial reporting accuracy and compliance with the financial reporting regulatory framework.

### **Quality and integrity of personnel**

Performance reviews are conducted at least annually for employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. The Board recognises the importance of succession planning to ensure the ongoing continuity of the business. A formal succession plan is also in place to ensure competent and knowledgeable employees are available to fill senior positions when retirements or resignations occur.

### **Financial reporting**

The CEO and CFO have provided assurance in writing to the Board that the Group's financial reports are founded on a sound system of risk management and internal control.

Monthly actual results are reported against budgets approved by the Board and rolling forecasts for the year are prepared regularly.

### **Environmental regulation**

The Group has processes in place to explore the ways in which the Group and its employees can control their carbon footprint and environmental impact.

### **Internal controls**

The Board reviews compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The Audit, Risk and Compliance Committee is responsible for approving the program of review.

### **Ethical standards**

All Directors, executives and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated manager to whom they may refer any issues arising from their employment.

### **Conflict of interest**

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist Directors with the requirement to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

### **Code of conduct**

Details relating to the Code are set out under Principle 3.

## **Trading in Company securities by Directors, executives and employees**

The key elements of the Company's Securities Trading Policy relating to Directors, executives and employees are:

- identification of those restricted from trading;
- imposition of blackout periods comprising 1 July up until the third trading day after the announcement to ASX of full-year results, 1 January up until the third trading day after the announcement to ASX of half-year results and the 30 day period up to and including three trading days after the AGM;
- Directors and executives may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
  - except between three and thirty days (including the day of the announcement) after the release of the Company's half-year and annual results to the ASX and the Annual General Meeting unless prior approval has been obtained; or
  - whilst in possession of price sensitive information not yet released to the market.
- raising awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares by specified employees;
- requiring details to be provided of the subsequent confirmation of the trade by specified employees; and
- identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act 2001 and can be found at <http://www.smsmt.com/investor/corporate-governance>.

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

The Remuneration Report (on pages 30 to 44 of the 2016 Annual Report) sets out details of the Company's policy and practices for remunerating Directors and executives.

The members of the Remuneration and Nominations Committee are set out above under Principle 1, and their attendance at meetings is set out on page 26 of the 2016 Annual Report. The composition and structure of the Remuneration and Nominations Committee complies with the ASX Principles.

The Company has a Long Term Incentive Plan (Plan). Participants in that Plan are subject to various restrictions, set out in the Securities Trading Policy, regarding transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Plan. The Securities Trading Policy can be accessed at <http://www.smsmt.com/investor/corporate-governance>.