

Corporate governance statement

This corporate governance statement ("Statement") summarises the main corporate governance practices of Service Stream Limited ("the Company") and its controlled entities ("the Group"). All practices, unless otherwise stated, have been in place for the 2010/11 financial year.

The Board of Directors of the Company is committed to achieving and maintaining high standards of corporate governance and in this Statement the Board discloses the extent to which the Company has followed the recommendations set out in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments*, 2nd edition ("the ASX Principles") in accordance with rule 4.10.3 of the ASX Listing Rules.

The Board actively reviews Australian and international developments in corporate governance and considers the views of shareholders, regulators (such as ASIC and the ASX), and other stakeholders prior to the adoption of any new arrangements. The Board has adopted practices that it believes will maximise long-term shareholder value given the Company's specific circumstances.

Principle 1 – Lay solid foundations for management and oversight

The Board has adopted a Board Charter which sets out the Board's role, responsibilities, structure and processes and the manner in which its performance, and that of the Directors and committees, will be evaluated. The Board has also adopted a Reserved Powers Policy that sets out matters specifically reserved for determination by the Board as distinct from matters delegated to executives in order to manage the operations of the Group.

The Board's focus is on representing and serving the interests of shareholders by setting the strategic direction for, and policies of, the Group and overseeing its performance. As part of this function, the Board monitors financial performance, legal compliance, risk management and ethical standards.

Responsibility for the Group's day-to-day operations and administration is delegated by the Board to the Managing Director. The Managing Director is required to consult with the Board on matters that have, or may have, a material impact on the Group in terms of value, reputational risk and / or which are of a sensitive or strategic nature. The Managing Director is accountable to the Board and is supported by a Senior Executive Team who meet informally on a regular basis and at least monthly on a formal basis. The Managing Director and Senior Executive Team meet to progress and coordinate the development and implementation of the Group's strategies, plans, standards, policies and projects.

Board meeting agendas are proposed by the Managing Director and Chief Financial Officer and approved by the Chairman of the Board. Standing items include safety, financial performance, operational and legal issues. Comprehensive Board papers are provided to the Directors in advance of all meetings. These papers are compiled from reports submitted by the Senior Executive Team, who may, from time to time, attend Board meetings to report directly to the Board on an as-required basis.

The Board and Senior Executive Team monitor the financial performance of the Group using monthly management financial accounts. These accounts are compared with monthly forecasts and budgets as well as the performance of the Group in prior corresponding periods. The Group's budgets and forecasts include key performance indicators against which performance is measured. Ongoing and consistent monitoring of the Group's performance with oversight by the Board ensures areas needing attention are identified and addressed.

Performance and accountability of the Senior Executive Team

Upon appointment, the Managing Director and each member of the Senior Executive Team sign a letter of engagement and are provided with an induction manual containing key Group information and policies. Letters of engagement include terms and conditions in relation to duties, rights and responsibilities, termination, and where applicable, the period of the engagement.

In addition to regular informal mechanisms of performance evaluation and feedback, the Managing Director's performance is formally reviewed by the Chairman on an annual basis against the Managing Director's key performance indicators and other performance criteria specified by the Board from time to time.

The Managing Director formally assesses the performance of each Senior Executive Team member annually against the executive's key performance indicators and other criteria. The Senior Executive Team is also provided with regular, informal feedback by the Managing Director and the Board.

The Remuneration and Nomination Committee considers the performance of the Managing Director and members of the Senior Executive Team when formulating remuneration arrangements, including short term and long term incentive plans and annual salary reviews. The short term incentive plan contains measurable key performance indicators with respect to the current financial year budget that are approved by the Board. The long term incentive plan contains incentive targets for the financial years to which each offer made under the plan applies.

Principle 2 – Structure the Board to add value

The Board is composed of a Non-Executive Chairman, three Non-Executive Directors and the Managing Director. During the year the Company engaged in a process of Board renewal, including a review of the mix and skills required of its Directors, and as a consequence there were various changes to the composition of the Board. In addition, between 8 October 2010 and 1 November 2010, the Company did not have a majority of Independent Directors. On 23 December 2010, the Board announced that it had approved the appointment of an Alternate Director (Robert Grant, Chief Financial Officer) to represent the Managing Director in his absence. The Chairman (Peter Dempsey) and two of the Non-Executive Directors (Stephe Wilks and Deborah Page) are Independent Directors. Brett Gallagher is not considered an Independent Director because within the last 3 years, he was employed in an executive capacity within the Service Stream group of companies.

The Board believes that the current mix of Directors bring a broad range of complementary skills and experience to their responsibility of governing the Company. Further information about the Board (and the Company Secretary) is set out in the Directors' Report on pages 8 to 23.

Director's independence

The Board assesses whether a Director is independent on a case-by-case basis, and at least annually. Directors are required to provide the Board with the information needed to make this assessment.

The Board uses the independence and materiality tests as set out in the ASX Principles when assessing a Director's independence. The Board regards a Director as independent if he or she is a Non-Executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of the Director's judgment.

To the extent that any Directors identified as being independent in this Statement have any affiliation with a customer of or supplier to the Group, or a contractual relationship with the Company or a controlled entity of the Company, all such relationships are immaterial as determined by this standard.

The Board has a policy of separating the role of Chairman and Managing Director. The Chairman is independent and his role and responsibilities are independent from those of the Managing Director.

Under current practice, there is a minimum of 11 scheduled Board meetings per year, with other meetings convened as required to consider specific or urgent matters.

Committees

The Board has established three key Committees to assist in the execution of its duties and functions being the:

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

The Audit and Risk Management Committee and the Remuneration and Nomination Committee have their own Charter approved by the Board. The Board is in the process of reviewing the Charter for the Safety and Environment Committee.

The Charters are reviewed annually and include a requirement that each Committee will review its own effectiveness and make any necessary recommendations to the Board regarding improvement.

The Remuneration and Nomination Committee has three members who are all independent Directors. The Committee is also chaired by an independent Director.

Appointment of Directors

While the Board does not have a formal procedure in place in relation to the selection, appointment and re-appointment of Board members, Directors actively and regularly consider the composition of the Board, taking into account the duration of each Director's tenure and the competencies required by the Company from time to time.

When nominating and appointing Directors, the Board seeks a balanced mix of qualifications, age, skill, gender and experience in order to achieve the most favourable outcome for the Company and its shareholders. The Board has appointed three new Directors in the past year, giving careful consideration to these matters in the context of the Company's requirements.

Conditions relating to appointment are provided to all Directors, in writing, prior to appointment. Apart from the Managing Director and his Alternate, all Directors are subject to re-election by rotation at least every three years in accordance with the Company's constitution, and shareholders are encouraged to participate in the re-election of Directors.

Directors have a right of access to all relevant Group information and the Senior Executive Team. In addition, the Company's policy is to allow Directors to obtain independent professional advice, at the Company's expense, on matters arising in the course of their Board duties. Directors must obtain the Chairman's approval prior to seeking advice (which cannot be unreasonably withheld), and a copy of the advice is made available to all other members of the Board. Further, all Directors have access to the Company Secretary, who is accountable to the Board on all governance matters.

During the year, the Board assessed its performance and that of its Committees and individual members, to ensure its effectiveness in meeting shareholder expectations. The Board is also reviewing its process for such performance evaluations to use in future appraisals.

The Board considers that the shareholders of the Company ultimately assess the performance of the Board, its Committees, individual Directors and the Senior Executive Team based on the financial performance of the Group and the commercial, legal and ethical framework within which the Group operates.

Principle 3 – Promote ethical and responsible decision-making

The Company is committed to being a socially responsible corporate citizen, using honest and fair business practices of the highest standard. All Directors, employees and sub-contractors are expected to comply with the law and act at all times with integrity.

The Company has a Standards of Behaviour Policy which contains a Code of Conduct. This Policy sets out the expected standards of behaviour, including a requirement for ethical and responsible decision-making by the Company, its Directors and employees.

The Code of Conduct sets out the Company's expectations in relation to matters such as honesty, relations with customers, prevention of fraud, conflicts of interest, sexual harassment/discrimination, drug/alcohol abuse, disputes with fellow employees, and the protection of information.

A Whistleblower Policy has also been established to encourage a culture of reporting matters that may cause the Group financial loss or damage to its reputation. This is supported by the Company's Whistle Blower Protection Program which is designed to ensure that an employee who comes forward to disclose such matters does not suffer any adverse consequences. The program is compliant with AS:8004 Whistleblower Protection Programs for Entities.

The Board and the Senior Executive Team, through their own actions, promote and foster an ethical corporate culture for the entire Group. To this end, the Board promotes open and honest disclosure and discussion, together with consideration and respect for the interests of all legitimate stakeholders at all Board and management meetings. In addition, the Board and the Senior Executive Team regularly consider relevant matters including conflicts of interest, corporate opportunities, confidentiality, fair dealing, complaints handling, the proper use of the Group's assets, compliance with laws and regulations, and reporting of unlawful or unethical behaviour.

In accordance with the Corporations Act and the Company's Board Charter, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with that of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at meetings when the relevant item is considered or voted on.

The Board has ultimate responsibility for resolving all matters concerning ethical and responsible decision-making, with the above policies and practices designed to ensure the integrity of the Company is maintained and investor confidence is enhanced.

Dealing in Company shares by directors, other officers and employees

The Directors have established a policy which governs dealings in securities to ensure the highest standards of corporate conduct and governance.

The Company's Constitution permits Directors to acquire an interest in securities, including shares, warrants and other financial products, in the Company and the Board encourages Directors, officers and employees to own securities in the Company to further link their interests with the interests of all security holders. The holding of, and dealing in, such securities is governed by the Company's Securities Trading Policy.

In accordance with the provisions of the Corporations Act and the ASX Listing Rules, Directors are required to advise the Company and the ASX of any changes in their interests in the Company, including securities in the Company.

Diversity

The Group is comprised of men and women of varying ages, ethnicities and cultural backgrounds. The Board has established a Diversity Committee which includes the Company Secretary and is sponsored by the Managing Director. The Committee is currently formalising a policy on diversity which includes measurable objectives for achieving gender diversity at all levels within the Group. These objectives will be assessed annually by the Board to assess progress in achieving them. The Company's diversity policy will be available on the Company's website and the Company will report to shareholders annually on its performance and progress in relation to diversity.

Further, the Company currently requires senior managers including the Senior Executive Team to attend corporate governance training on an annual basis. This training includes a focus on the need for flexible work practices and inclusive behaviours to counteract unconscious bias in recruitment and progression.

As at 31 March 2011, women constituted 25% of the Group's employees, 20% of the Board and 17% of the Senior Executive Team.

Principle 4 – Safeguard integrity in financial reporting

The Audit and Risk Management Committee has been established to assist the Board in fulfilling its responsibilities to provide shareholders and regulatory authorities with timely and reliable financial reports of the Company.

The Board has adopted a Charter for the Committee which sets out its role and responsibilities in relation to reviewing the integrity of the Company's financial reporting and overseeing the independence of the Company's external auditors. Among other things, the Committee reviews audit scopes, assesses the performance of and fees paid to the external auditors, liaises with the external auditors to ensure that the annual audit and half-year review are conducted in an effective, accurate and timely manner, and considers whether non-audit services provided by the external auditors are consistent with maintaining the external auditor's independence. The Committee reports to the Board on financial and audit matters at each relevant Board meeting.

The Committee is comprised of four Directors, all of whom are non-executive directors and the majority of whom are independent. The Committee is chaired by Deborah Page who is an Independent Non-executive Director and not Chairman of the Board. The Board considers that this structure maintains integrity and is operationally effective for a company of its size and composition.

The external auditors, Deloitte Touche Tohmatsu, were appointed as auditors for the Company in November 2006. Prior to this, they had been auditors for Service Stream Holdings Pty Ltd since 1 July 1992. Deloitte changes the lead audit engagement partner for the Company every five years. The current lead audit engagement partner has held this position since December 2009.

The Managing Director and Chief Financial Officer state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial position and operational results and are in accordance with all relevant accounting standards.

Further information with respect to safeguarding the integrity of financial reporting, including information about the members and meetings of the Committee, is provided in the Directors' Report on pages 8 to 23.

Principle 5 – Make timely and balanced disclosure

The Board has delegated to the Company Secretary day-to-day responsibility for monitoring compliance with the ASX Listing Rules and communications with the ASX.

The Company is committed to providing timely and accurate disclosure to the market of all material matters concerning the Company in accordance with the Corporations Act and ASX Listing Rules. All information disclosed to the ASX is posted on the Company's website following confirmation from the ASX that the information has been disclosed to the market.

The Company has adopted the following mechanisms to ensure compliance and to create accountability at a senior management level for timely and balanced disclosure:

- All matters requiring disclosure by the Listing Rules are disclosed to the ASX;
- The Directors, Managing Director, Chief Financial Officer and the Company Secretary ("Disclosure Officers") are responsible for reviewing potentially material matters and determining what information should be disclosed;
- Only a Disclosure Officer may authorise communication on behalf of the Company in relation to matters requiring disclosure by the Listing Rules;
- Executives must inform a Disclosure Officer of any potential disclosures as soon as they become aware of the information. The Senior Executive Team is responsible for ensuring staff understand and comply with this procedure; and
- ASX and media releases must be approved by a Director to ensure the disclosure is factual, includes all material information and is expressed clearly and objectively.

Principle 6 – Respect the rights of shareholders

The Company respects the rights of its shareholders and facilitates the effective exercise of those rights.

Shareholders are responsible for voting on the election of Directors at the Annual General Meeting. The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business (such as the adoption of the Company's remuneration report). The Company's policy is to encourage effective shareholder participation at Annual General Meetings, with a notice of such meeting sent to shareholders along with the Annual Report prior to the meeting.

The Company requires the engagement partner of the firm of external auditors (or other representative from that firm) to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors' Report (which is set out in pages 25 and 26).

The Company has a policy of effectively communicating with shareholders using various methods such as:

- the Annual Report which is made available to shareholders;
- disclosures made to the ASX;
- information uploaded in the "Investors" section of the Company's website;
- notices of meeting and explanatory memoranda in relation to resolutions to be put to a vote of shareholders;
- Annual General Meetings at which shareholders are given an opportunity to participate in, ask questions about and comment on the performance and operations of the Company and its subsidiaries; and
- responding to communications from shareholders in a timely and responsive manner.

Principle 7 – Recognise and manage risk

The Company has established an Audit and Risk Management Committee to:

- assist the Board in identifying, monitoring and managing the Group's material business risks;
- review the Company's risk management policies and make recommendations to the Board from time to time to enhance the Company's risk management framework; and
- review the appropriateness and effectiveness of the Company's internal control procedures.

The Managing Director, the Audit and Risk Management Committee and the Board recognise that they have ultimate responsibility for ensuring that the risk mitigation actions and internal control environment of the Group is fit for purpose and adequate in terms of safeguarding shareholder value. The Company has put in place a comprehensive risk management framework designed to promote a culture that encourages the active management of opportunities as well as risks to the business. That framework has been developed in line with the recommendations contained within the *AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines* standard.

As part of its risk management framework, the Board has adopted a Risk Management Policy which is designed to promote a standardised Group-wide approach to the management of risks by requiring that as an organisation the Group will:

- implement a standard Group-wide approach to risk management;
- implement a structured and consistent process for identifying, assessing and managing business risks as well as opportunities;
- comply with all applicable laws, licensing and government regulations applicable to its business activities;
- promote a culture that accepts both good and bad news, encourages personal responsibility and expects proactive identification and management of risks and opportunities; and
- monitor, address and report on risk management performance measures.

In accordance with its risk management framework, the Company has in place various processes designed to safeguard the Group's assets, minimise its liabilities and to ensure the integrity of its reporting.

The Company is currently in the process of implementing a management reporting program to assist with reporting on the adequacy and effectiveness of its internal risk management and controls environment.

The Company has put in place appropriate internal controls in relation to accounting, financial reporting, delegations of authority, payment systems, segregation of duties, contract review, ISO auditing, safety and health, property and environmental management activities.

The identification, assessment, monitoring and management of business risks and the internal controls environment is monitored by the Senior Executive Team of the Group on an ongoing basis and formally as part of regular monthly meetings. The Senior Executive Team also reports to the Board on a regular basis in relation to the Group's effective management of risk.

The Board has received an assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8 – Remunerate fairly and responsibly

The Company has established a Remuneration and Nomination Committee. The Committee has three members and a majority of its members are Independent Directors. The Committee is chaired by Peter Dempsey who is an Independent Director.

The Committee has responsibility for reviewing and making recommendations to the Board in relation to remuneration, in particular ensuring that the Group offers remuneration which is fair and competitive, which is appropriately linked to performance, and which motivates the Senior Executive Team to pursue the long-term growth and success of the Group. The Committee also reviews senior management remuneration structures and succession plans and monitors the level and nature of Directors' remuneration to ensure it is in line with current standards. The Committee provides recommendations to the Board which, in turn, has ultimate responsibility for fair and responsible remuneration for Group personnel.

As required, the Board engages appropriately qualified consultants to provide it with advice and recommendations.

Executive Directors receive salaries and employee benefits and do not receive additional fees for their services as Directors. Discussions are undertaken between Non-Executive and Executive Directors with regard to setting appropriate levels of remuneration. No Executive Director or other executive participates in any decision relating to their own remuneration.

Non-Executive Directors are remunerated by way of fees and statutory superannuation.

The Senior Executive Team is remunerated by way of fixed salary, long term and short term incentives and superannuation.

The remuneration report (at pages 16 to 22 of this annual financial report) sets out information relating to the Committee and its meetings, and the remuneration of Directors and the Senior Executive Team.

Documents referred to in this Statement, unless under review, are published in the Corporate Governance section of the Company's website, www.servicestream.com.au.