

The Board of Directors of Monadelphous Group Limited (Monadelphous) is responsible for establishing the corporate governance framework of the consolidated entity having regard to the ASX Corporate Governance Council published guidelines as well as its corporate governance principles and relevant recommendations. The Board guides and monitors the business and affairs of Monadelphous on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Group's compliance with the Corporate Governance Council's Recommendations.

RECOMMENDATION	Comply Yes/No	Reference/ Explanation
Principle 1 – Lay solid foundations for management and oversight		
1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 45
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 48
1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	
Principle 2 – Structure the Board to add value		
2.1 A majority of the Board should be independent directors.	No	Page 46
2.2 The chairperson should be an independent director.	No	Page 46
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	Yes	Page 46
2.4 The Board should establish a nomination committee.	Yes	Page 47
2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes	Page 48
2.6 Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	
Principle 3 – Promote ethical and responsible decision-making		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> - the practices necessary to maintain confidence in the Company's integrity; - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes	Website
3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 46
3.3 Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	
Principle 4 – Safeguard integrity in financial reporting		
4.1 The Board should establish an audit committee.	Yes	Page 47
4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> - consists only of non-executive directors; - consists of a majority of independent directors; - is chaired by an independent chairperson, who is not chairperson of the Board; - has at least three members. 	Yes	Page 47
4.3 The audit committee should have a formal charter.	Yes	Website
4.4 Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	

RECOMMENDATION (CONTINUED)	Comply Yes/No	Reference/ Explanation
Principle 5 – Make timely and balanced disclosure		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website
5.2 Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	
Principle 6 – Respect the rights of shareholders		
6.1 Companies should design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website
6.2 Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	
Principle 7 – Recognise and manage risk		
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	Page 47
7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 47
7.4 Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	
Principle 8 – Remunerate fairly and responsibly		
8.1 The Board should establish a remuneration committee.	Yes	Page 48
8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Page 48
8.3 Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	

Monadelphous Group Limited's corporate governance practices were in place throughout the year ended 30 June 2011, unless otherwise stated. Monadelphous Group Limited complies in all material respects with the Council's best practice recommendations.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Monadelphous Group Limited refer to the Monadelphous website:

www.monadelphous.com.au

Board Functions

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.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

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.

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
- Nomination
- Remuneration

Board Functions (continued)

The roles and responsibilities of these committees are discussed throughout this Corporate Governance Statement.

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;
- reporting to shareholders.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 49. Directors of Monadelphous are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence, and the materiality thresholds set, Mr P. J. Dempsey and Mr C. P. Michelmore are considered to be independent directors.

The Board believes that while the Chairman is not independent, the current composition of the Board with its combined skills and capability, best serve the interests of the shareholders.

The role of Chairman and Chief Executive Officer are not exercised by the same individual.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

C. G. B. Rubino	20 years	Executive Director
R. Velletri	19 years	Executive Director
I. Tollman	19 years	Non-Executive Director
P. J. Dempsey	8 years	Lead Independent Non-Executive Director
C. P. Michelmore	4 years	Independent Non-Executive Director

Trading Policy

Under the Company's Share Trading Policy, Key Management Personnel and other employees may only trade in securities of the Company during specific periods, and then only if they do not possess any unpublished, price-sensitive information in relation to those securities.

The trading periods in which buying and selling of the Company's securities, either directly or indirectly, by a Key Management Personnel or other employee is allowed, spans the periods between 24 hours and 30 working days after each of the following events:

- release of the annual and half-yearly results to the ASX;
- the close of the Annual General Meeting; or
- any other time as the Board of Directors of Monadelphous permits.

All other periods are "closed periods" during which Key Management Personnel and other employees are prohibited from dealing in Monadelphous securities. From time to time, the Board of Directors of Monadelphous may also declare that Key Management Personnel and other employees are prohibited from dealing in Monadelphous securities during trading periods even though those trading periods are not closed periods.

Trading Policy (continued)

Before commencing to trade, a Key Management Personnel or other employee must first notify the Company Secretary of their intention to do so. The notification must state that the proposed purchase or sale is not as a result of access to, or being in possession of, price sensitive information that is not currently in the public domain.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by the Directors in the securities of the Company.

For a copy of the Share Trading Policy, please refer to the Monadelphous website.

Nomination Committee

The Board has a nomination committee which operates under a charter and meets at least annually. The nomination committee is responsible for ensuring that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The nomination committee comprises of two independent non-executive directors and one executive director. Members of the nomination committee throughout the year were:

- C. G. B. Rubino (Chairman)
- C. P. Michelmore
- P. J. Dempsey

For details of directors' attendance at meetings of the nomination committee, refer to page 59 of the Directors' Report.

Audit Committee

The Board has an audit committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This 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 such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors. The members of the audit committee during the year were:

- P. J. Dempsey (Chairman)
- I. Tollman
- C. P. Michelmore

Qualifications of audit committee members

P. J. Dempsey has over 39 years experience in the management of risks associated with the industry in which Monadelphous operates.

I. Tollman has significant experience in the management of Monadelphous having served as the finance director of Monadelphous for 11 years and as a non-executive director for 8 years.

C. P. Michelmore has over 39 years experience in the management of risks associated with the construction industry.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to page 59 of the Directors' Report.

Risk

The Board regularly receives updates from management as to the effectiveness of the Company's management of its material business risks.

For further information on the Company's risk management plan, refer to the Monadelphous website.

Managing Director and CFO Certification

In accordance with section 295A of the *Corporations Act*, the Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- their views provided on the consolidated entity's financial reports are founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the consolidated entity's risk management and internal compliance and control systems are operating effectively in all material respects.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the nomination committee conducted performance evaluations which involved an assessment of the Board's and Senior Executives' performance against qualitative and quantitative performance criteria. The performance criteria against which the Board and executives are assessed are aligned with the financial and non-financial objectives of Monadelphous.

Remuneration Committee

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the remuneration committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives
- attraction of quality management to the Company
- performance incentives which allow executives to share the rewards of the success of Monadelphous.

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

In relation to the issuing of options, discretion is exercised by the Board, having regard to the overall performance of Monadelphous and the performance of the individual during the period. The Monadelphous Group Limited Employee Option Plan rules have been approved by shareholders.

There is no scheme to provide retirement benefits, other than statutory superannuation, to directors. There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team. The Board has established a remuneration committee, comprising three non-executive directors.

Members of the remuneration committee throughout the year were:

C. P. Michelmore (Chairman)

I. Tollman

P.J. Dempsey

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to page 59 of the Directors' Report.