

# Corporate Governance Statement

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## Corporate Governance Statement

### Purpose

To establish a framework of rules, relationships, systems and processes within which authority is exercised and controlled within the Company. It encompasses the mechanisms by which the Company, and those in control, are held to account. The Statement is intended to influence how the objectives of the Company are set and achieved, how risk is monitored and assessed, and our performance optimised.

Engenco Limited and its subsidiary companies (“the **Company**” or “**Engenco**”) and the Board are committed, where practical having regard to the size and ownership of the Company, to achieving compliance with all the best practice recommendations released by the Australian Securities Exchange (ASX) Corporate Governance Council. This statement outlines the main corporate governance practices in place throughout the financial year, with specific references made to any departures from the best practice recommendations. The Company’s approach to corporate governance is to promote a culture, including appropriate values and behaviours that underpins its business activities and personal accountabilities and protects stakeholder interests.

### Corporate Profile

The Group delivers a diverse range of engineering services and products through two business streams: Power & Propulsion and Rail & Road. Engenco businesses specialise in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems;
- Maintenance, repair and overhaul of locomotives;
- Manufacture and maintenance of wagons, carriages and associated rail equipment;
- Project management, training and workforce provisioning services; and
- Manufacture and supply of road transport and storage tankers for dry bulk products;

The Group services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

The Group operates globally and employs nearly 500 people (full-time equivalent) in over twenty locations in three countries.

## Role of the Board

The role of the Board is to protect and promote the interests of the Company and to represent its shareholders whilst considering the interests of other stakeholders including employees, customers, suppliers, wider communities and the environment. It does this according to the principles of good corporate governance, intending to fulfil the Company's responsibilities as a corporate citizen.

The Board operates under a Board Charter, which describes the processes used by the Board to:

- Review and approve corporate strategies, the annual budget and financial plans;
- Oversee and monitor organisational performance and the achievement of the Engenco Group's strategic goals and objectives;
- Determine dividend policy and the amount, nature and timing of any dividends to be paid;
- Review and, as appropriate, endorse recommendations from the Audit and Risk Committee in respect of the selection and continued engagement of the external auditor;
- Monitor financial performance and liaise with the Engenco Group's external auditor as necessary;
- Select, appoint and determine the terms of appointment of the Chief Executive Officer (CEO) and his/her direct reports and the Company Secretary (Group executives) and monitoring the performance of the Group executives;
- Review succession plans for the CEO and Group executives;
- Oversee the effectiveness of management processes and approving major corporate initiatives;
- Oversee the processes for identifying significant financial, legal and business risks facing the Engenco Group and to ensure adequate control, monitoring and reporting mechanisms are in place, through the review of reports and recommendations submitted by the Audit and Risk Committee;
- Review and oversee systems of risk management and internal control and legal compliance in association with the Audit and Risk Committee;
- Consider the social, ethical and environmental impact of the Group's activities; and
- Report to, and communicate with, shareholders.

The Board may change, by resolution, any power reserved to itself.

A copy of the Board Charter is available at: [http://www.engenco.com.au/fileadmin/\\_private/Board\\_Charter\\_20170824.pdf](http://www.engenco.com.au/fileadmin/_private/Board_Charter_20170824.pdf).

## Executive Delegation

Other than those matters reserved by the Board to itself, the Board has delegated certain financial authorities to the Managing Director/CEO and members of senior management to achieve the Company's objectives within the approved budgets and consistent with this Corporate Governance Statement, the Company constitution, statute and other regulations.

The Managing Director/CEO prepares a one-year operational and financial plan for approval by the Board.

The Board retains responsibility for:

- providing leadership and setting the strategic objectives of the entity;
- appointing the Chair;
- appointing, and when necessary replacing, the CEO;
- approving the appointment, and when necessary replacement, of other senior executives;
- overseeing management's implementation of the entity's strategic objectives and its performance generally;
- approving operating budgets and major capital expenditure;
- overseeing the entity's process for making timely and balanced disclosure of all material information concerning the entity that a reasonable person would expect to have a material effect on the price or value of the entity's securities;
- remuneration of CEO and senior executives;
- approving the entity's remuneration framework; and
- monitoring the effectiveness of the entity's governance practices.

## Board Structure

Engenco is committed to ensuring that the composition of the Board includes directors who bring an appropriate mix of skills, experience and expertise to Board decision making. A formal skills matrix is prepared and approved by the Board at the end of each reporting period, representing the number of directors possessing the appropriate skills and experience, disclosed below.

SKILLS AND EXPERIENCE	BOARD REPRESENTATION
<p><b>Leadership</b> Successful repour in business at CEO, senior executive and non-executive level including vast experience in influencing organisation culture and extensive background within a publicly listed company.</p>	5
<p><b>Strategy</b> Experience in the development and implementation of successful business strategy and the aptitude to govern management on the delivery of strategic objectives.</p>	5
<p><b>Governance</b> Commitment to the highest standards of governance and the capacity to evaluate the effectiveness of senior management within complex organisations, including the maintaining effective risk management and internal controls.</p>	5
<p><b>Relevant Industry Experience</b> Senior executive experience within the Rail and Defence, Power and Heavy Engineering, Oil, Gas, Process and Mining industries comprising of in-depth knowledge of the Group’s strategy, markets, competitors, technology, operational issues and regulatory concerns.</p>	4
<p><b>Capital Projects</b> Experience in the delivery of large-scale capital projects, along with expertise in risk management and project governance.</p>	3
<p><b>Health, Safety and Environment</b> Experience associated with workplace health and safety and suitable proficiency with community and environment issues in a large organisation setting.</p>	5
<p><b>Financial Expertise</b> Vast knowledge and expertise in financial accounting and reporting, corporate finance and financial forecasting, encompassing experience in business analysis and internal financial controls.</p>	4
<p><b>Human Resources</b> Relevant management background in relation to human resource operations, strategy, compensation and incentive plans within an organisation.</p>	5
<p><b>Public Policy and Regulation</b> Capable in managing how organisations adapt and respond to changing public policy settings including the oversight and supervision of regulatory frameworks and processes proposed to guarantee that all regulatory obligations are satisfied.</p>	4

The Board currently comprises 5 directors, including 4 non-executive directors. Details of the directors, including their skills, experience and year of appointment, are detailed on the Company's website: <http://www.engenco.com.au/about-us/board-members.html>

## Independence

When determining whether a non-executive director is independent, the director must not fail any of the following materiality thresholds:

- is not a member of the management of the Company, and has not within the last three years been employed in an executive capacity by the Company or another group member;
- less than 10% of company shares are held by the director or any other entity or individual directly or indirectly associated with the director;
- the Company has not made sales to, or purchases from, any entity or individual directly or indirectly associated with the director; and
- none of the director's income or of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

The Board reviews the independence of its directors in light of the information provided to it.

The Board structure and composition is of a size which is fiscally responsible whilst facilitating effective decision-making. As a consequence of the size and ownership structure of the Company, the current composition of the Board does not include a majority of independent directors (a departure from ASX Corporate Governance Recommendation 2.4), however the Board is of the view that its current directors possess an appropriate mix of skills, experience and expertise to enable the Board to discharge its responsibilities and deliver the Company's corporate objectives.

The Chairman is elected from the members of the Board. As a result of the existing Board composition, the current Chairman, Vince De Santis, is not an independent director, as he was until 31 December 2018, a director of an entity that holds more than 10% of the Company's issued share capital. This is a departure from ASX Corporate Governance Recommendation 2.5. The responsibilities of the Chairman are set out in the Board Charter.

## Meetings of the Board

The Board meets on a monthly basis, and more frequently if required. On the invitation of the Board, members of senior management attend to discuss issues of importance and to keep the directors informed. In addition to the formal meetings the Board regularly meets to consider important issues affecting the Group.

## Board Membership

### Appointment

The Board is responsible for identifying suitable candidates to fill Board vacancies as and when they arise, and/or to identify candidates to complement the existing Board. The Board will assess candidates against a range of criteria including background, experience, professional qualifications, personal qualities, and the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If a candidate is deemed suitable based on these criteria and the Board appoints the candidate as a director, that director must have their appointment approved by shareholders at the next annual general meeting.

The Board aims, through the notices of meeting for annual general meetings, to provide shareholders with all material information known to the Board and relevant to a decision on whether or not to elect or re-elect a director. Each director has a formal contract with the Company, setting out the terms of their appointment.

The expectation of directors is that they are of unquestioned integrity and honesty, will understand and behave to the highest standards of corporate governance and are prepared to question, challenge, and criticise on matters of importance.

### Retirement and Re-election

The constitution of the Company requires one third of the directors to retire from office at each annual general meeting. Directors who have been appointed by the Board are required to retire from office at the next following annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting.

Directors cannot hold office for a period in excess of three years or beyond the third annual general meeting following their appointment, whichever is longer, without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

## **Board Access to Information and Independent Advice**

All directors have unrestricted access to employees of the Group and, subject to the law, access to all company records and information held by group employees and external advisors. Each director may obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. In such cases, written approval must be obtained from the Board prior to incurring any expense on behalf of the Company, and the Chairman and the Company Secretary must be advised, and a copy of the advice made available to all directors.

## **Conflicts of Interest**

Directors are required to notify the Board of any real or perceived conflicts of interest that may occur from time to time. The Board has adopted the use of formal standing notices in which they disclose any material personal interests they have and the relationship with the affairs of the Group. Directors are required to provide an updated notice if they acquire any new material personal interests or if there is any change to the nature and extent of their previously disclosed interest.

## **Performance Evaluation**

A formal assessment of Board performance takes place periodically based on the method agreed and approved by the Board. All Directors and Company Secretaries complete a confidential questionnaire which provides input into the Board's performance against key criteria. An assessment was performed during the current reporting period. The Board's performance and development is discussed on a regular basis at Board meetings.

As set out in the Board Charter, it is the responsibility of the Board to review the performance of Group executives. This is conducted informally during each meeting of the Board in addition to formal performance reviews.

## **Reward and Remuneration**

Reward and remuneration of directors and executives will be objectively linked to achieving the Group's objectives and consistent with the financial performance of the Group.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

- All executive directors and key executives receive a salary package comprised of a base salary, short-term incentive plan, superannuation and post-employment benefits.
- The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable market information.
- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits, which are aligned with shareholder value. The remuneration policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.
- The directors and key executives receive a superannuation guarantee contribution required by law (which was 9.5% during the year) and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase superannuation contributions.
- All remuneration paid to directors and executives is valued at cost to the Group and expensed.
- The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting.
- To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

There will be transparency to shareholders regarding reward and remuneration of board members and senior executive management.

## Committees

The Board has appointed an Audit and Risk Committee to assist it in exercising its responsibilities. Due to the size and ownership structure of the Company, the Board has not formed a Nomination or a Remuneration Committee, which is a departure from ASX Corporate Governance Recommendations 2.1 and 8.1.

The Board size and composition are determined in accordance with the Company's constitution. The Board retains responsibility for ensuring appropriate skills, knowledge, experience, independence and diversity are maintained to enable the Board to discharge its duties and responsibilities effectively.

The Board has deemed the above noted policy for determining remuneration to be sufficient in the absence of a formal Remuneration Committee. The remuneration of board members is reviewed and formally approved by Shareholders as part of the annual general meeting requirements.

### Audit and Risk Committee

The Audit and Risk Committee monitors internal control policies and procedures designed to safeguard company assets and to maintain the integrity of financial reporting. The Board extended the Committee's responsibilities to include the identification of financial and other business risks (including economic, environmental and social sustainability risks), and the development of recommendations to strategically address the identified risks.

The specific responsibilities as set out in its Charter include:

- in conjunction with the external auditors, assure the integrity of financial statements;
- recommend to the Board the appointment of and review the performance of the external auditor;
- manage the appointment and renewal and remuneration of the external auditor;
- overseeing the integrity of the entity's accounting and corporate reporting systems, including the external audit;
- oversee the integrity of the external audit process;
- ensuring that the entity has in place an appropriate risk management framework and setting the risk appetite within which the Board expects management to operate; and
- implement a process to identify the likelihood and impact of financial and other business risks and the development of recommendations to strategically address the identified risks.

The Committee has approved a risk management framework for the Company. The Board reviews the Company's risk register on a monthly basis.

The Committee is chaired by a non-executive director of the Company. Membership of the Audit and Risk Committee must include at least two directors (other than the Managing Director/CEO) and the Committee Secretary. The Committee meets quarterly. In the reporting period, meetings have taken place on 21 August 2018, 20 November 2018, 19 February 2019 and 28 May 2019.

The members of the Audit and Risk Committee during the reporting period were:

- Ross Dunning (Independent Non-Executive Director) – Chair of the Committee
- Alison von Bibra (Independent Non-Executive Director)
- Vincent De Santis (Non-Executive Director/Chairman)
- Andrew Nightingale (Committee Secretary) (appointed 1 August 2018)
- Paul Burrows (Committee Secretary) (appointed 10 December 2018)
- Linda Dillon (Committee Secretary) (resigned 1 August 2018)

The skills and experience of Ross Dunning, Alison von Bibra and Vincent De Santis are noted on the Company's website at: <http://www.engenco.com.au/about-us/board-members.html>. The skills and experience of Andrew Nightingale and Paul Burrows are noted below:

#### Andrew Nightingale

BCom, LLB

Appointed as Company Secretary on 1 August 2018

Andrew is a lawyer with over 10 years' experience, including working for a corporate regulator, an ombudsman and a variety of in-house teams. Andrew holds a Bachelor of Laws and a Bachelor of Commerce from the University of Otago, and has also practiced law in the United Kingdom and New Zealand.

**Paul Burrows**  
BCom, CA, GAICD

Appointed as Company Secretary on 10 December 2018

Paul has vast experience in ASX listed entities and global businesses. He holds a Bachelor of Commerce degree, is a Chartered Accountant and is a Graduate of the Australian Institute of Company Directors. Paul has significant experience in corporate governance, mergers and acquisitions and financial reporting in high growth environments together with hands-on experience in the implementation of system and process improvements.

<b>Audit and Risk Committee Meetings</b>		
	Number eligible to attend	Number attended
Ross Dunning	4	4
Alison von Bibra	4	4
Vincent De Santis	4	4
Andrew Nightingale	4	4
Paul Burrows	2	2
Linda Dillon	-	-

The external auditors are invited to attend meetings as required and the Managing Director/CEO and Chief Financial Officer (who also serves as a Committee Secretary) may be invited, but will be excused from discussions if the committee so determines. The Audit and Risk Committee Charter guides the activities of the Audit and Risk Committee.

*A copy of the charter of the Audit and Risk Committee is available at:*

[http://www.engenco.com.au/fileadmin/private/Audit\\_and\\_Risk\\_Committee\\_Charter\\_20170824.pdf](http://www.engenco.com.au/fileadmin/private/Audit_and_Risk_Committee_Charter_20170824.pdf).

## Financial Reporting

Consistent with ASX Corporate Governance Recommendation 4.2, and in accordance with section 295A of the *Corporations Act 2001*, the Group's financial report preparation and approval process requires both the Managing Director/CEO and Chief Financial Officer to provide a written statement to the Board that, in their opinion:

- the Group's financial statements and notes for the financial year present a true and fair view of the Group's financial condition and operating results, and are in accordance with applicable accounting standards; and
- the Group's financial records for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*.

## Audit Governance and Independence

### External Auditor

KPMG is the Group's current external auditor. The performance of the external auditor is reviewed annually by the Audit and Risk Committee. KPMG was appointed as the external auditor at the Company's annual general meeting in 2012. It is the Group's policy that, where practical, no non-audit services are provided by the external auditor to ensure independence is maintained. It is KPMG's policy and a *Corporations Act 2001* requirement to rotate audit engagement partners on listed companies at least every five years.

### Independence Declaration

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 amendments to the *Corporations Act 2001* require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies.

### Attendance of External Auditors at Annual General Meetings

In accordance with the *Corporations Act 2001*, the Company requires that KPMG attend the Company's annual general meeting and is available to answer questions about the conduct of the audit and the preparation and content of the audit report. Shareholders are asked to submit written questions to the Company Secretary at least 7 days prior to the annual general meeting.

## Internal Audit

The Company does not have an internal audit function, which is a departure from ASX Corporate Governance Recommendation 7.3.

The establishment and implementation of a Risk Management Framework (including internal control policies and procedures) is the responsibility of the Audit and Risk Committee, as is the review of the effectiveness of this Framework. The management of the risks identified via this Framework is the responsibility of the Board.

## Code of Conduct

The Company recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity.

The Board has endorsed a Code of Conduct which sets out the principles and standards with which all officers and employees are expected to comply in the performance of their respective functions in respect of responsibilities to shareholders, customers, clients, consumers and the community. The Code encourages personnel to report infringing behaviour (including anonymously) and protection from retaliatory action is assured.

## Securities Trading Policy

The Company has a Securities Trading Policy to minimise the risk of insider trading in the Company's securities consistent with good corporate governance principles. The policy prohibits all employees, officers and directors of the Company from trading in the Company's securities if they are in possession of inside information. Short-term or speculative dealing in the Company's securities by employees, officers and directors is also not permitted. Employees, officers and directors must not trade in the Company's securities during closed periods. Trading is generally permitted at other times provided there is no contravention of the insider trading laws. The policy also restricts hedging and margin loan activities by employees, officers and directors. The Company's Securities Trading Policy is published on the Company's website.

## Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market. The Company Secretary has responsibility for overseeing and co-ordinating the disclosure. Any disclosures are discussed with the Board and appropriate action is taken. The Company's Continuous Disclosure Policy is published on the Company's website.

## Communications with Shareholders

The Board is committed to discharging its obligation to represent the interests of shareholders. The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company, in particular, paying regard to the continuous disclosure requirements of the ASX.

It is the policy of the Company to facilitate communications by shareholders with the Board and Group executives. The Board welcomes shareholder participation at the Company's annual general meeting where shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of the annual and interim financial statements. Shareholders are encouraged to attend and participate in the annual general meeting, to lodge questions to be responded to by the Board, and are able to appoint proxies. In addition, any shareholder wishing to communicate with the Board may do so by submitting such communication in writing and sending it by regular mail to the attention of the appropriate party at Engenco Limited, Level 22, 535 Bourke Street, Melbourne VIC 3000.

The Investor Centre is one of the Company's key methods of communication with shareholders. The Investor Centre is accessible via the Company's website <http://www.engenco.com.au/investor-centre.html> and includes share registry services, share price updates, all major ASX announcements, Company published reports, presentations and shareholder meeting details.

Shareholders also have the ability to subscribe to email alerts from the Company via the Company's website.



## Diversity Policy

The Company has developed a Diversity Policy, which has the following objectives:

- To recognise and embrace our multicultural diversity and grow our workforce to reflect the diversity of the communities in which we operate;
- To recognise that those in the community that have disabilities have an equal right to suitable employment and rewarding career advancement opportunities; and
- To create programs to encourage gender representation at all levels of the Group (including senior management) that accurately represents our society.

The Company's commitment to diversity is substantially influenced by our Diversity Committee and representatives come from all levels of the Group. The Diversity Committee is sponsored by the Managing Director/CEO of the Company and makes recommendations on diversity related initiatives, monitors and evaluates their implementation and ensures that diversity related programs are progressing successfully.

The current Diversity Policy is not compliant with ASX Corporate Governance Recommendation 1.5, as there are no measurable objectives set or method of reviewing progress towards those objectives detailed within the policy. It is the Board's view that the currently policy is fair and free of any discrimination in terms of individuals' employment.

The Company is defined as a relevant employer under the *Workplace Gender Equality Act 2012* and is therefore required to submit an annual compliance report with the Workplace Gender Equality Authority (WGEA) for the period 1 April 2018 to 31 March 2019. The annual compliance report was lodged on 28 May 2019. A copy of this report is available on the Company's website at [http://www.engenco.com.au/fileadmin/\\_private/Engenco\\_Ltd\\_WGEA\\_Public\\_Report\\_2018-2019.pdf](http://www.engenco.com.au/fileadmin/_private/Engenco_Ltd_WGEA_Public_Report_2018-2019.pdf).