



/2004

# Statement of Corporate Governance Practices

## Statement of Corporate Governance Practices 2004

This statement:

- sets out the 10 core principles identified by the ASX Corporate Governance Council (“Council”) as underlying good corporate governance;
- outlines the main corporate governance practices of the Leighton Group. Unless otherwise stated, the Group’s corporate governance practices were in place throughout the 2003/04 year and comply with the Council’s best practice recommendations;
- should be read in conjunction with the Leighton Holdings Limited 2004 Concise Annual Report (“Annual Report”) and full Financial Report 2004 (“Financial Report”).

As recognised by the Council, corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimised. There is no single model of good corporate governance. What constitutes good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet those circumstances.

## 2 Composition of the Board

### Council Principle 2: Structure the board to add value

*Council Recommendation 2.1: A majority of the board should be independent directors*

**Leighton practice:** The Company presently has ten Non-executive Directors, six of whom, G J Ashton AM, M C Albrecht AC, G J Dixon, A Drescher, R D Humphris OAM and D A Mortimer, are considered by the Board to be independent. The non-independent Directors comprise the two Executive Directors, W M King AO and D S Adamsas and the four Non-executive Directors representing Leighton’s majority shareholder, HOCHTIEF, H-P Keitel, P M Noé, T C Leppert and D P Robinson.

Mr M C Albrecht is considered by the Board to be independent notwithstanding that he has remained a Director of Thiess after his retirement as Managing Director of Thiess in October 2000. Mr Albrecht was after 12 months leave of absence appointed Chairman of Thiess in October 2001 and to the Board of Leighton Holdings in November 2001. Given the time which has elapsed since Mr Albrecht was involved in the management of Thiess and the consistent independent judgement he has brought to bear in decision making as a member of the Leighton Board, the Board has determined that Mr Albrecht should be considered an independent Director.

In May 2004 HOCHTIEF increased its representation on the Board from 3 to 4 Directors. The Board considers HOCHTIEF’s Board representation to be reasonable and appropriate given that HOCHTIEF presently owns in excess of 53% of Leighton.

Although one half of the Board are independent Directors, the Board does not have a majority of independent Directors and consequently the Board’s composition does not comply with recommendation 2.1 in the Council’s Guidelines.

Notwithstanding its non-compliance with recommendation 2.1, the Board has adopted a number of policy measures to ensure that independent judgement is achieved and maintained in respect of its decision-making processes, which include the following:

- the Chairman is an Independent Director and has a casting vote at Board meetings in the event of a deadlock;
- Directors are entitled to seek independent professional advice at the Company’s expense, subject to the approval of the Board;
- Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic; and
- Non-executive Directors confer on a needs basis without management in attendance.

The Board is balanced in its composition with each current Director bringing a range of complementary skills and experience to the Group. Personal details of Directors are set out on Pages 57 and 58 of the Annual Report.

To assist the Board in discharging its responsibilities, the Board has established a number of Board Committees including a Nomination Committee, a Remuneration Committee, an Ethics and Compliance Committee and an Audit Committee. The mandates and operating procedures of each of these Committees are summarised later in this statement.

It is the Board’s policy that Board Committees should:

- be chaired by a Non-executive Director;
- should comprise a majority of Non-executive Directors;
- be entitled to obtain independent professional or other advice at the cost of the Company; and

- be entitled to obtain such resources and information from the Group, including direct access to employees of and advisers to the Group, as they may require.

*Council Recommendation 2.2: The chairperson should be an independent director*

**Leighton practice:** The Company’s Chairman, Mr G J Ashton AM, is independent in terms of the Council’s definition of independent director.

*Council Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual*

**Leighton practice:** The Company’s Chairman, Mr Ashton, and CEO, Mr King have separate roles. The Chairman is responsible for leading the Board in the discharge of its duties.

*Council Recommendation 2.4: The board should establish a nomination committee*

**Leighton practice:** A Nominations Committee has been established since August 1992 to assess and make recommendations to the Board regarding the membership of the Board, including proposed new appointments. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.

Current members of the Nominations Committee are:

G J Ashton AM (appointed Chairman 19 December 2003), Independent Non-executive Director;

W M King AO, Executive Director;

P M Noé (appointed 28 November 2003), Non-executive Director; and

R L Seidler (appointed 19 December 2003), Alternate Director.

Details of their attendance at Committee meetings are set out at page 54 of the Annual Report.

## 1 Role of the Board and Management

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

*Council Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management*

**Leighton practice:** The Leighton Board is responsible to shareholders for the Group’s overall corporate governance. This responsibility includes:

- reviewing and determining the Group’s strategic direction and operational policies;
- establishing goals for management and monitoring the achievement of these goals;
- reviewing and approving the Group’s Business Plan;
- appointing, monitoring and rewarding the Chief Executive Officer;
- approving all significant business transactions including acquisitions, divestments, property developments, project tenders and capital expenditure;
- monitoring business risk exposures and risk management systems;
- approving and monitoring financial and other reporting;
- approving donations and sponsorship budgets; and
- reporting to shareholders.

A strategic balance is maintained between the responsibilities of the Board, the Chief Executive Officer and the Deputy Chief Executive Officer and CFO.

As Chief Executive Officer, Mr W M King AO, is accountable to the Board for the management of the Group within the policy and authority levels prescribed in the Group’s Business Plan, which is reviewed and approved by the Board each year.

The CEO has the authority to approve capital expenditure and business transactions within predetermined limits set by the Board.

The CEO’s specific responsibilities include:

- ensuring business development and tendering activities are in accordance with the Group’s overall business strategy and Group Tendering Guidelines;
  - keeping the Board informed of all major project proposals in Australia and overseas by way of specific reports; and
  - approving the remuneration levels and bonus payments of all personnel, except for the senior executives reporting directly to him.
- Mr D S Adamsas, as Deputy Chief Executive Officer and CFO, is responsible for maintaining financial control across the Group. In this role Mr Adamsas is responsible for overall Group management reporting, statutory accounting, auditing, treasury, taxation and insurance with his specific responsibilities including:
- monitoring financial performance and planning against the financial control guidelines which govern the allocation and management of financial resources throughout the Group;
  - ensuring that appropriate financial reporting is provided to the Board on a monthly, quarterly and annual basis;
  - monitoring the Group’s risk management framework to ensure that established policies, guidelines and controls are implemented through a scheduled programme of audits and reviews; and
  - management of relations with investors and analysts.

When required to act as Chief Executive Officer Mr Adamsas operates within the same authority levels as outlined above for Mr King.

## 3 Ethical and Responsible Decision-making

### Council Principle 3: Promote ethical and responsible decision-making

*Council Recommendation 3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:*

*3.1.1 the practices necessary to maintain confidence in the company’s integrity*

*3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices*

**Leighton practice:** In September 1995, the Leighton Board adopted a Code of Ethics that sets out the principles and standards with which all Group officers and employees are expected to comply in the performance of their respective functions. Under the Code, officers and employees are expected to:

- comply with the law;
- act honestly and with integrity;
- not place themselves in situations which result in divided loyalties;
- use Leighton’s assets responsibly and in the interests of Leighton; and,
- be responsible and accountable for their actions.

In November 1998, the Board established an Ethics Committee whose principal function was initially to review and make recommendations to the Board regarding the maintenance of ethical standards and practices generally within the Leighton Group.

Subsequently each of the Group’s main operating subsidiaries established an Ethics Committee which co-ordinates with the Ethics Committee of Leighton Holdings in monitoring and formulating the Group’s ethical policy direction and reporting. The Group’s Ethical Dimension Reporting system requires each major operating subsidiary to submit a quarterly report

to the Board with a view to ensuring the maintenance of ethical practices within the Group and the achievement of continual improvement in this area.

In June 2004 the Ethics Committee was renamed the Ethics and Compliance Committee and its Terms of Reference were expanded. In addition to its responsibilities with regard to ethical standards and practices in the Group in general, specific responsibilities were added with regard to reviewing and monitoring compliance with laws which impact upon the Group's business and operations as well as Group standards and practices in the areas of occupational health and safety, the environment and trade practices.

The current members of the Ethics and Compliance Committee are:

M C Albrecht AC (Chairman) (appointed 25 June 2004), Independent Non-executive Director;

R D Humphris OAM (appointed 6 September 2004), Independent Non-executive Director;

W M King AO (appointed 25 June 2004), Executive Director; and

R L Seidler (appointed 25 June 2004), Alternate Director.

*Council Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees*

**Leighton practice:** The Company's Constitution requires Directors to hold at least 1000 shares in the Company but additional shareholdings by Directors are encouraged. The Company has a policy, which restricts the times and circumstances in which Directors, senior executives and certain employees may buy or sell shares in the Company. Unrestricted trading is limited to specified short periods after announcements are made to the ASX of the Company's quarterly, half-yearly and final financial results.

Directors must advise the Company, which in turn advises the ASX, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs.

# 4

## 4 Integrity of Financial Reporting

### Council Principle 4: Safeguard integrity in financial reporting

*Council Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to 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 condition and operational results and are in accordance with relevant accounting standards*

**Leighton practice:** Leighton's Chief Executive Officer and Deputy Chief Executive Officer & CFO each report in writing to the Board that in his opinion the consolidated financial statements of Leighton Holdings Limited and its controlled entities for each half and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with accounting standards.

*Council Recommendation 4.2: The board should establish an audit committee*

**Leighton practice:** An Audit Committee was established by the Board in June 1990.

*Council Recommendation 4.3: Structure the audit committee so that it consists of:*

- only non-executive directors
- a majority of independent directors
- an independent chairperson, who is not chairperson of the board
- at least three members

**Leighton practice:** The current members of the Audit Committee are:

D P Robinson (Chairman) Non-executive Director,

G J Ashton AM (appointed 25 June 2004) Independent Non-executive Director; and

D A Mortimer, Independent Non-executive Director.

Details of their attendance at Committee meetings are set out at page 54 of the Annual Report.

The composition of the Audit Committee complies with recommendation 4.3 of the ASX Corporate Governance Council Guidelines in all respects, except that the Committee's Chairman, Mr D P Robinson is not an Independent Director. As principal of the firm Harveys Chartered Accountants, Mr Robinson is a practising chartered accountant; he has been an active member of the Audit Committee since August 1991 and is suitably qualified to act as the Committee's Chairman, a position that he has held since 2000.

The Terms of Reference of the Audit Committee require that by 1 July 2005 its Chairman be an independent Non-executive Director.

Details of Messrs Ashton's and Mortimer's experience are set out at pages 57 and 58 of the Annual Report and indicate each of them is suitably qualified to be a member of the Audit Committee.

The current composition of the Audit Committee complies with the transitional arrangements approved by the ASX, which provide relief from full compliance with Council recommendation 4.3 until 1 July 2005.

*Council Recommendation 4.4: The audit committee should have a formal operating charter*

**Leighton practice:** The Audit Committee has a formal Terms of Reference and Procedures. The principal functions of the Audit Committee are to:

- assist the Board in the discharge of its responsibilities in respect of the preparation of the Group's financial statements and the Group's internal financial controls;
- review the integrity of, and the management processes which support, the Group's financial reporting;
- assist the Board in assessing the effectiveness of the Group's risk management systems and the effectiveness of the Group's implementation of those systems;
- recommend to the Board nominees for appointment as external auditors;
- monitor the effectiveness and independence of the external auditor;
- review the scope of the audit and the level of audit fees;
- provide a line of communication between the Board and the external auditors; and
- review and discuss the reports prepared by the external auditors.

# 5

## 5 Continuous Disclosure to ASX

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

*Council Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance*

**Leighton practice:** The Company has established comprehensive policies and procedures to identify matters that are likely to have a material affect on the price of the Company's securities and to ensure those matters are notified to the ASX in accordance with its Listing Rule disclosure requirements. The procedures relating to the notification of price sensitive matters to the ASX and the subsequent posting of them on the Company's website are detailed in policy documentation. The CEO and Deputy CEO & CFO are responsible for implementing and monitoring the Company's disclosure policy and procedures. The Company Secretary is responsible for communications with the ASX.

# 6

## 6 Communication with Shareholders

### Council Principle 6: Respect the rights of shareholders

*Council Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings*

**Leighton practice:** The Group's Shareholder Communication Policy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The Policy provides for the use of systems involving communiqués and technologies that ensure a regular and timely release of information about the Leighton Group is provided to shareholders. Mechanisms employed include:

- regular shareholder communications such as Quarterly and Half-Yearly Reports, the Concise Annual Report and the Full Financial Report;
- shareholder access to communications through the use of information technology such as the Leighton website ([www.leighton.com.au](http://www.leighton.com.au)) and webcasting of important events including proceedings at financial results presentations and the Company's AGM; and
- utilising Computershare, the Group's share registry service provider, to facilitate the electronic delivery of reports to shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals. Important issues are presented to shareholders as single resolutions and proceedings of the AGM are web cast live to maximise communication with shareholders. A video of proceedings at the AGM is also made available on the Leighton website for viewing by shareholders for a period of at least six months after the AGM.

*Council Recommendation 6.2: Request the external auditor 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 auditor's report*

**Leighton practice:** The Company's practice is to ensure the Group's external auditor attends the AGM.

# 7

## Risk Management

### Council Principle 7: Recognise and manage risk

*Council Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management*

**Leighton practice:** The Board is responsible for the oversight of the Group's risk management and control framework. The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing and monitoring the financial and reporting aspects of the Group's risk management and control framework. Major exposures for the Group stem from Leighton's broad and somewhat unique business risk profile which covers areas including operational, reputation, regulatory, contractual, financial, information and strategic risk.

The Group has implemented a policy framework designed to ensure that the Group's risks are identified and that controls are adequate, in place and functioning effectively. This framework incorporates the maintenance of comprehensive policies, procedures and guidelines which span the Group's diverse contracting and project development activities. It covers areas such as tendering and contract negotiation, design and project management, occupational health and safety, environmental management, trade practices, interest rate and foreign currency exposures, ethical conduct, gathering and release of material information, crisis management and IT disaster recovery and business continuity planning.

Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Chief Executive Officer and Deputy Chief Executive Officer & CFO having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Group are highlighted in the Business Plan presented to the Board by the Chief Executive Officer each year.

The Board reviews and approves the parameters under which significant business risks will be managed before adopting the Business Plan.

Arrangements put in place by the Board to monitor risk management include:

- regular monthly reporting to the Board in respect of operations, the financial position of the Group and new contracts;
- reports by the Chairman of the Audit Committee and circulation to the Board of the minutes of each meeting held by the Audit Committee;
- attendance and reports by the Managing Directors of the Group's main operating subsidiaries at Board Meetings on at least a quarterly basis;
- presentations made to the Board or Committees of the Board throughout the year by appropriate members of the Group's management team (and/or independent advisers, where necessary) on the nature of particular risks and details of the measures which are either in place or can be adopted to manage or mitigate the risk; and

- any Director may request that operational and project audits be undertaken by the Company's Group Services Division.

The Board has also adopted reporting and other procedures which allow it:

- to monitor the Group's compliance with the continuous disclosure requirements of the ASX Listing Rules;
- to monitor the Group's compliance with occupational health and safety, environment and trade practices laws;
- to monitor the maintenance of ethical practices within the Group; and
- to assess the effectiveness of its risk management system and the effectiveness of the implementation of that system.

*Council Recommendation 7.2: The chief executive officer and the chief financial officer should state in writing that:*

*7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board*

*7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

**Leighton practice:** Leighton's Chief Executive Officer and Deputy Chief Executive Officer & CFO each report in writing to the Board that in his opinion:

- the statement given in accordance with Council's best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.



## 8 Performance

### Council Principle 8: Encourage enhanced performance

*Council Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives*

**Leighton practice:** The Board has adopted a self-evaluation process to measure its own performance and the performance of its Committees during each financial year. The process is conducted through the review and analysis of responses to a confidential questionnaire completed by each Director, which poses specific questions on issues surrounding meeting logistics, work programme, interaction with management and any perceived strengths and weaknesses of the Board and its Committees.

Following a review of the content of the questionnaires by the Chairman a summary of the overall results is distributed to and discussed by Directors. Significant issues identified or changes recommended are actioned in the Board's ongoing development programme.

Arrangements put in place by the Board to monitor the performance of the Group's key executives include:

- regular monthly reporting submitted to the Board and attendance at all Board Meetings by the CEO and Deputy CEO & CFO;
- a review by the Board of the Group's financial performance and revised forecast results on a quarterly, half yearly and annual basis at Board Meetings at which reports are presented by the CEO, Deputy CEO & CFO and each Managing Director of the Group's main operating subsidiaries;

- an evaluation of detailed presentations made by the CEO and his direct reports during business planning/strategy review meetings, which are convened annually by the Board and held over a 2 to 3-day period towards the end of each financial year;

- regular reporting from the Chairman of the Remuneration Committee which monitors the performance of the Group's key executives to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company. The minutes of each Remuneration Committee Meeting are circulated to all Directors; and

- regular reporting from the Chairman of the Audit Committee which assesses management processes supporting external financial reporting.



## 9 Remuneration

### Council Principle 9: Remunerate fairly and responsibly

*Council Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance*

**Leighton practice:** The Company's policies relating to Directors' and Senior Executives' remuneration and the level of their remuneration are set out in the Directors' Report on page 52 of the Annual Report and Notes 36 and 37 to the Financial Report.

*Council Recommendation 9.2: The board should establish a remuneration committee*

**Leighton practice:** The Board established a Remuneration Committee in 1992 whose principal functions according to its Terms of Reference and Procedures include:

- reviewing and approving the remuneration of Executive Directors and other Senior Executives of the Group;
- reviewing and making recommendations to the Board regarding:
  - the remuneration policies and practices for the Group generally including participation in the incentive plan, share scheme and other benefits; and,
  - superannuation arrangements.

The current members of the Remuneration Committee are:

A Drescher (appointed Chairman 17 June 2004), Independent Non-executive Director;

W M King AO, Executive Director;

H-P Keitel, Non-executive Director; and

D A Mortimer, Independent Non-executive Director.

Details of their attendance at Committee meetings are set out at page 54 of the Annual Report.

As Chief Executive Officer, Mr King absents himself from the meetings before any discussion by the Committee in relation to his own remuneration.

*Council Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives*

**Leighton practice:** The Company's Non-executive Directors receive fees as remuneration for acting as a Director of the Company and in some cases as a Director of a subsidiary and/or member of a standing committee of the Board. The amount of each Non-executive Director's fees depends on the extent of the Director's responsibilities. The Non-executive Directors do not receive any performance related remuneration.

The fees of the Company's Non-executive Directors are determined by the Board (which for this purpose comprises only the Executive Directors) having regard to the level of fees paid to Non-executive Directors by other companies of similar size and stature.

The aggregate annual fees payable to the Company's Non-executive Directors are limited to the maximum annual amount approved by the Company's shareholders (currently \$1,300,000 as determined at the 2001 Annual General Meeting).

The Company pays into the Company's superannuation fund at a minimum the mandatory superannuation guarantee contribution payable in respect of each Non-executive Director.

Under the plan approved by shareholders at the 1996 Annual General Meeting, retiring Non-executive Directors who have held office for three years or more are permitted to receive a retiring allowance which increases with the length of their service. The maximum allowance is payable in the case of a Non-executive Director who has held office for at least 10 years and in such a case the allowance is an amount equal to the total fees paid to that Director during the last five years before retirement. This retirement plan was closed to all Non-executive Directors appointed after 5 November 2003 and higher fees are paid to those Directors to compensate them for their non-participation in the plan.

The retirement allowance payable under the plan to a participating Non-executive Director on retirement is funded by the Company to the extent that the amount payable to the Director out of the Company's superannuation fund and attributable to the amounts paid into the fund by the Company is insufficient to meet the retirement allowance.

*Council Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders*

**Leighton practice:** The Company ensures that the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders. The Leighton Executive Share Option Plan and the Leighton Employee Share Plan were both approved by shareholders at the 1998 Annual General Meeting.



## 10 Interests of Stakeholders

### Council Principle 10: Recognise the legitimate interests of stakeholders

*Council Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders*

**Leighton practice:** Leighton's objective is to maintain and further develop a diversified contracting and project development business that creates wealth for shareholders and adds value for clients and other stakeholders.

To ensure this occurs, the Group conducts its business within the Code of Ethics, documented and outlined in Principle 3 of this Statement, and the Group's core values which are to:

- act with integrity and fairness
- create a safe, challenging and fun workplace
- recognise the needs of the community
- protect the environment
- be commercially competitive
- foster a performance driven culture
- encourage innovation and technological leadership.