



Supply Network Limited Corporate Governance Statement

Board members, as representatives of the shareholders, are committed to setting a cultural framework within the organisation that engenders responsible citizenship amongst all employees, with an attitude of “doing the right thing” by all stakeholders.

The Board promotes a corporate governance framework that achieves the objectives of the business and discharges all responsibilities. It intends to direct the business so that it is managed in a manner consistent with the interests of shareholders, its business partners, and the wider community.

The Board of SNL does not comply with many of the Best Practice Recommendations put forward by the ASX Corporate Governance Council. While we support their objectives we do not believe that it is appropriate for a company of our size and stage of development to be governed through a set of formal policies, procedures and codes of conduct that have been designed for companies far more complex than SNL.

Below we address each of the ASX Corporate Governance Council’s 10 Principles of Good Corporate Governance. In each case where we state non-compliance it is because we believe the costs and rigidity of implementing and managing compliance would be contrary to serving the interests of our shareholders.

Principle 1 – Lay solid foundations for management and oversight

Whilst no formal “Charter of Board Responsibility” has been adopted, the Board has made clear to management which functions are to be reserved for it. These functions are:

- Ratification of strategy and monitoring management’s implementation.
- Any appointment or removal of the Chief Executive Officer.
- Approving the conditions of service and succession planning for all Executives.
- Approval of budgets including all capital expenditure and monitoring financial outcomes.
- Setting authority limits for managers, particularly those relating to expenditure and contracts.
- Audit, risk management and compliance systems.
- Ethical standards.
- Continuous disclosure to shareholders.

With a small Board, it is relatively easy to gather Board and management to address particular issues. This process is helped by the effective relationship existing between the Managing Director and the Chairman.

Supply Network Limited Corporate Governance Statement (continued)

Principle 2 – Structure the Board to add value

We aim to have Directors whose skills meet business needs and are complementary to each other. Where appropriate Directors may seek approval from the Chairman to take independent professional advice at the company's expense.

The skills of the four current Board members and their terms of office are detailed in our Annual Report. Two of our four members are considered independent and three are in non-executive roles.

We support the ASX recommendation that a majority of Directors be independent and will consider this for future appointments. We do not believe that the addition of a fifth Board member is justified at this point of time.

Whilst the Chairman is not independent under the ASX definition (being a major shareholder), his approach to meetings is to seek consensus and to give all parties ample opportunity to speak and debate. The Board has approved the Chairman's job specification and in his role as Chairman, he continues to enjoy the support of the Board. The Chairman and Managing Director have regular contact, and the MD will attest that the Chairman does not interfere in his management.

With a small Board, there is no need for a formal Nomination Committee, but the Board spends considerable time on succession planning. The last time the Board sought to fill a vacancy, it drew up a matrix of skill sets and aimed to appoint someone with complementary skills.

Principle 3 - Promote ethical and responsible decision making

Whilst the Board has no formal code of conduct for Directors or Executives it believes one of a company's best assets is its reputation, and accordingly is adamant that both its members and all staff act with high standards in all their dealings. The Board encourages long-term decision making and not a "quick fix" approach to problems.

Directors are prohibited from buying or selling the Company's securities outside of certain windows (they can trade only within a period of 20 days after a General Meeting or after certain ASX announcements or, in special circumstances, with the permission of the Chairman), and senior management are made aware of the prohibition on trading in shares while they are in possession of confidential information likely to have a material effect on share price.

Supply Network Limited Corporate Governance Statement (continued)

Principle 4 – Integrity in financial reporting

The Company practices high standards of financial reporting, with well-developed checks and balances in place. The Board requires the Managing Director and the most senior finance Executive 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.

The Audit Committee consists of all three Non-Executive Directors, two of whom are independent, and has an independent Chairman. The Audit Committee is responsible for annually reviewing the appointment of the Auditors and recommending to the full Board their reappointment or replacement. It has no formal charter.

Principle 5 – Make timely and balanced disclosure

The Board is sensitive to the requirements of an informed market. It seeks to keep its Shareholders informed through:

- Reports to the ASX.
- Half and full-year profit announcements.
- Annual Reports.
- Continuous disclosure to the ASX pursuant to the ASX Listing Rules.

Whilst there is no written list of policies and procedures concerning disclosure, the Board believes its track record verifies its diligent approach.

Principle 6 – Respect the rights of Shareholders

The Board members recognise and honour their responsibility to consider the interests of all shareholders. Accordingly they are available for shareholders to speak with, particularly at General Meetings, and promptly make available market announcements on SNL's website. The Board requests the external auditor to attend the annual general meeting and to be available to answer shareholder questions.

The company's communication with Shareholders is based on statutory reporting requirements, continuous disclosure to the ASX and all Board members attend annual general meetings where possible.

Principle 7 – Recognise and manage Risk

The Board as a whole annually reviews the Company's risk matrix. Senior management is involved in drawing up this document, which addresses the likelihood and severity of risks as well as contingency planning.

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While there is no formalised internal compliance and control system policy, in a company of SNL's size there is close interaction between the executive and staff, and risk is minimised through staff training and monitoring at all levels. Where circumstances dictate, matters are brought to the Board earlier than at scheduled meetings.

The Managing Director and the most senior finance Executive have stated to the Board in writing that:

- The integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8 – Encourage enhanced performance

An annual review of the performance of the Board as a unit and of its members is undertaken internally by the Board. Hitherto each year on a scheduled date Board members have been given the opportunity to detail individually issues they see as strengths and weaknesses of the Board, of its meetings, and of its members. These views are discussed by all members but the details and any related reports are not made public.

Each year on another scheduled date the Board formally reviews with the Managing Director the performance of Executives over the prior year. The Board encourages management to conduct periodic performance reviews of all senior staff.

Principle 9 – Remunerate fairly and responsibly

Board members are remunerated by reference to industry standards.

The Non-Executive Directors are entitled to a retiring allowance as approved by shareholders in 1997. They have resolved to freeze the salary rate on which this entitlement is calculated at the level as of 30 June 2004. In other words Non-Executive Directors will continue to receive a fixed fee, which is reviewed annually, but their retiring allowances will not rise with increasing fees.

They have also resolved to pay future Non-Executive Directors a fee only, with no provision for a retiring allowance.

Senior management receives annually a base salary package and a performance bonus relating to the year just finished. The bonus component is based on results in excess of predetermined performance hurdles and the structure of these hurdles is common throughout the company.

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The Board has not used equity-based remuneration for Executives over the past year and has no plans to introduce it at this stage. Should this change the Board would seek to have plans approved in advance by shareholders.

The Remuneration Committee, consisting solely of Non-Executive Directors and having an independent Chairman, monitors industry practice and advises the Board, which sets the remuneration levels of Executives.

Principle 10 – Recognise the legitimate interest of stakeholders

Whilst there is no formalised code of conduct regarding stakeholders, the Board recognises legitimate interests of the community with which the Company interacts. It encourages all staff to act likewise.

Board members periodically attend customer functions, wherein they can observe how well the company is serving the wider community.

Other Issues

Board Meetings

The Company is a small size to be listed on the ASX, which gives its people the agility to make decisions in a timely manner. While Board meetings are generally scheduled once a month, with a small Board, other meetings are held as necessary. Any director is free to seek to have items added to the agenda, which is set by the Chairman.

Conflicts of interest are handled in the appropriate manner with the Director concerned where necessary abstaining from voting and discussion, including leaving the room.

Board Committees

There are two permanent Board Committees, Audit and Remuneration, each chaired by an independent Director. Each calls meetings on an as needs basis and asks non-Committee members to attend on occasions.

Strategy

The Board places great emphasis on setting the strategy for SNL and regular meetings are held attended by Executives and Board members. The Board has a program of visiting all divisions of the Company over a period of time and seeks to understand the special needs of the business at each location. Strategy meetings often take place during Board visits away from Head Office.

The Board vigorously debates management recommendations and requests additional information when it believes it is not sufficiently well informed to make a decision.

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Human Resources

Along with strategy Human Resources is considered important, and staff development, training and succession are given high priority. Director training is also encouraged and the Company pays for attendance at appropriate seminars.

Insurances

Insurance covers are reviewed annually by the Board and any recommendations for change are properly explored.

Communications and community support

In keeping with the Company's policy of improving external communications to better serve its constituency, the Board has appointed nominated spokespersons for operational and shareholder matters.

The Board is sensitive to community expectations regarding donations. No funds are given to any political party or individual running for office. Modest assistance is given to local community activities, where authority is granted from the Executive.

Finally

Being a small company with speedy interactions available, much decision making is in an informal environment. That is not to say that decision making is reckless. The Board firmly believes in adequate checks and balances at all levels, without inhibiting personal initiative. It works closely with the Managing Director to ensure sufficient authority is given to him to manage the business and is supportive of SNL staff.

In seeking to enhance shareholder wealth, the Board ensures throughout the business, from the Boardroom down, no individual has unfettered power, and every decision is open to challenge.