

# CORPORATE GOVERNANCE

The Agricultural Land Trust is a registered managed investment scheme under the Corporations Act 2001 ("Corporations Act"). Agricultural Land Management Limited is the Responsible Entity for the Trust and establishes the corporate governance policies of the Trust. The Responsible Entity holds an Australian Financial Services Licence authorising it to operate the Trust and has a duty to act in the best interests of unitholders of the Trust. As a registered managed investment scheme under the Corporations Act, the Trust has a compliance plan that has been lodged with the Australian Securities and Investments Commission ("ASIC"). A copy of the compliance plan can be obtained from ASIC.

The Australian Securities Exchange Limited ("ASX") Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles"), in conjunction with the ASX listing rules, require the Trust to disclose in its annual report the extent to which its corporate governance practices follow the ASX Principles and to give reasons why any recommendations have not been followed. The Responsible Entity complies with a majority of the ASX Principles. Where it does not, it is largely in respect of matters where the nature of the regulation of the Trust or of the Trust's business is such that the board of the Responsible Entity considers that compliance is not appropriate or required and that there is no detriment to unitholders of the Trust from non-compliance.

## Relationship between the Responsible Entity and Elders Limited

The Responsible Entity is a wholly owned subsidiary of Elders Limited. Currently all rental income of the Trust is derived from wholly owned subsidiaries of Elders Limited. Elders Limited is also a substantial unitholder in the Trust (49.83% as at 30 June 2011). Further information regarding the relationship and transactions with Elders Limited is detailed in Note 15 in the notes to the financial statements.

## Compliance with ASX Corporate Governance Principles and Recommendations

### Principle I

#### Lay solid foundations for management and oversight

*Recommendation 1.1 – Establish and disclose the functions reserved to the board of the Responsible Entity and those delegated to management.*

The relationship between the board and management is a partnership that is crucial to the long-term success of both the Responsible Entity and the Trust. The separation of responsibilities between the board and management is clearly understood. The respective roles of the board and management of the Responsible Entity are set out in the Trust's compliance plan. The Trust's compliance plan sets out the key processes, systems and measures the Responsible Entity will apply to ensure compliance with the Corporations Act and the constitution of the Trust. In addition, the board of the Responsible Entity has adopted a board charter and a delegation of authority designed to emphasise the responsibilities of the board in managing the Trust in a manner which protects and builds wealth for the unitholders, taking into account other stakeholders such as employees, customers, suppliers, lenders and the wider community. The board has delegated responsibility for the day to day operation and administration of the Trust to the General Manager. Various responsibilities, including those detailed below, cannot be delegated to management and accordingly remain the responsibility of the board;

- > Responsibility for overall corporate governance of the Trust
- > Strategic decisions
- > Adoption of budgets
- > Acquisition and disposal of rural property assets
- > Selection of Auditors
- > Equity raisings
- > Entering into new borrowing arrangements
- > Provision of security
- > Entering into contracts with external service providers with a cost of greater than \$50,000
- > Trust distributions

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*Recommendation 1.2 – Disclose the process for evaluating the performance of senior executives.*

No amounts are paid by the Trust directly to senior executives of the Trust. These amounts are paid directly from the ultimate holding company of the Responsible Entity, Elders Limited. Consequently performance of key executives of the Responsible Entity is reviewed in accordance with Elders Limited's group policy. Pursuant to the Responsible Entity's Board Charter, the board has a responsibility to assess the performance of the General Manager and executive team. An assessment of the performance of the General Manager and executive team has been conducted by the board in relation to the 2011 year.

## Principle 2

### Structure the board of the Responsible Entity to add value

*Recommendation 2.1 – A majority of the board of the Responsible Entity should be independent directors.*

The board of the Responsible Entity currently comprises two independent non executive directors and one non independent non executive director. Details of the directors are set out on page 6 of the Annual Report.

The two independent directors are former executives of Elders Limited however due to the period of time that has elapsed since their employment with Elders and or the nature of their employment, the board considers them to be free of any business or other relationship that could materially interfere with the independent exercise of their judgement.

Given that the majority of the board is independent, the Trust is not required to have a Compliance Committee. Notwithstanding this, the board has retained the Trust's Compliance Committee to further enhance corporate governance. The role of the Compliance Committee is to monitor the Responsible Entity's compliance with the Trust's constitution, compliance plan and the Corporations Act, to ensure that the Responsible Entity acts in the best interests of unitholders.

The Compliance Committee comprises three members, two of whom are external and independent of the Responsible Entity and satisfy both the external member tests in the Corporations Act and the independence tests set out in the ASX Principles. The Compliance Committee meets quarterly and may report to the board or the Australian Securities and Investment Commission on any matters of compliance in relation to the Trust.

The board considers that the additional oversight of the Trust's activities by the Compliance Committee and the procedures set out in the compliance plan relating to the operation of the Trust provide sufficient independent oversight and transparency in the management of the Trust.

For the reasons noted above and due to the relative size and nature of the Trust's activities the board does not consider it necessary to adopt Recommendations 2.2 (the Chairman should be an independent director), 2.3 (the roles of the Chairman and Chief Executive Officer, or equivalent, should not be exercised by the same individual), 2.4 (the board should establish a nomination committee) and 2.5 (companies should disclose the process for evaluating the performance of the board, its committees and individual directors).

## Principle 3

### Promote ethical and responsible decision making

*Recommendation 3.1 – Establish a code of conduct and disclose the code or a summary of the code as to:*

- 3.1.1 *the practices necessary to maintain confidence in the Trust's integrity*
- 3.1.2 *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders*
- 3.1.3 *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Trust has established a Code of Conduct that sets out the conduct and ethical standards that are expected of directors, management and employees. By articulating these standards directors, management and employees are held accountable for their actions should they fall short of these standards.

The Trust's compliance plan also sets out the arrangements the Responsible Entity has to ensure that breaches of the Corporations Act, constitution of the Trust, Australian Financial Services Licence conditions, or internal standards are identified, reported and rectified if necessary. The Trust's compliance with its compliance plan is audited annually.

Recommendations 3.2 (establish a policy concerning diversity), 3.3 (disclose the measurable objectives for achieving gender diversity) and 3.4 (disclose the proportion of women employees, senior executives and board members) were recently introduced by the ASX Corporate Governance Council and reporting against these recommendations is not required by the Trust in relation to the current year.

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## **Principle 4** **Safeguard integrity in financial reporting**

*Recommendation 4.1 – The board should establish an audit committee*

The ASX listing rules do not require the Trust to establish an audit committee. The relative size of the board and expertise of each director allows the full board to also perform an audit committee function. Accordingly, the board does not consider it necessary to establish a separate committee for this purpose.

The board monitors the independence of the external auditor who is required to confirm such independence on a semi-annual basis. The board monitors the performance and terms of the audit engagement on an annual basis. The auditor and the audit firm are prohibited from providing any non-audit services that may affect their independence. The board has established a non audit services policy to assist with the maintenance of auditor independence.

The Compliance Plan prescribes that it is expected that the General Manager provides a written declaration to the board that, to the best of his or her knowledge and belief, the Trust's financial report presents a true and fair view in all material respects of the Trust's financial condition and operating results and is in accordance with applicable accounting standards.

For the reasons noted above and due to the relative size and nature of the Trust's activities the board does not consider it necessary to adopt Recommendations 4.2 (structure of audit committee) and 4.3 (audit committee should have a formal charter).

## **Principle 5** **Make timely and balanced disclosure**

*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 and disclose a summary of those policies.*

The Responsible Entity is committed to complying with the continuous disclosure obligations of the Corporations Act and the ASX listing rules and has systems in place to ensure timely disclosure of price sensitive information to the market.

The Responsible Entity has established a continuous disclosure and communications policy designed to ensure timely and full disclosure to unitholders and the market in general, and to ensure that all stakeholders have an equal opportunity to receive and obtain information issued by the Trust.

The guiding principle contained within the continuous disclosure and communications policy is that the Responsible Entity will immediately notify the market via an announcement to the ASX of any information concerning the Trust that a reasonable person would expect to have a "material" effect on the price or value of the Trust's securities.

## **Principle 6** **Respect the rights of unitholders**

*Recommendation 6.1 – Design and disclose a communications strategy to promote effective communication with unitholders and encourage effective participation at general meetings*

The Responsible Entity has established a continuous disclosure and communications policy designed to ensure timely and full disclosure to unitholders and the market in general, and to ensure that all stakeholders have an equal opportunity to receive and obtain information issued by the Trust. All important announcements are available on the ASX announcement platform on the ASX website.

The Trust is not required to hold an Annual General Meeting, however from time to time the board considers whether investor meetings should be held. The auditor and the compliance plan auditor are expected to attend any meeting of unitholders of the Trust and be heard on any item of business that concerns them.

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## Principle 7

### Recognise and manage risk

*Recommendation 7.1 – The Trust should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

The Responsible Entity has established a risk management policy based on the standards set out in Australian Risk Management Standard AS/NZS 4360.

The risk management policy addresses both compliance risks and business risks. The Trust's risk management framework is summarised in the compliance plan.

The risk management policy, in conjunction with the compliance plan, ensures that risks are identified and assessed, and that measures to monitor and manage each material risk are implemented. Operation of the Trust in accordance with the risk management policy and compliance plan is intended to protect the rights and interests of unitholders.

*Recommendation 7.2 – The board should require management to design and implement the risk management and internal control system to manage the Trust's material business risks and to 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.*

The Responsible Entity's risk management policy was designed by management. In accordance with the risk management policy the Compliance Officer is required to provide a quarterly risk report to both the board and the Compliance Committee.

A statement as to the effectiveness of the Trust's management of its material business risks is incorporated in the declaration by the General Manager referred to under Recommendation 4.1 which has been received by the board for the financial year.

*Recommendation 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 Corporations Act is founded on a sound system of risk management and internal control that the system is operating effectively in all material respects in relation to financial reporting risks.*

A statement that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control that is operating effectively is incorporated in the declaration by the General Manager referred to under Recommendation 4.1 which has been received by the board for the financial year.

## Principle 8

### Remunerate fairly and responsibly

Remuneration expenses of the Responsible Entity are not borne by the Trust. As directors and management of the Responsible Entity are not remunerated by the Trust, unitholders have no direct exposure to those remuneration expenses.

In accordance with the Corporations Act, the right of the Responsible Entity to be remunerated and indemnified by the Trust is set out in the constitution of the Trust. The Responsible Entity's fee is prescribed in the constitution of the Trust and any change to that fee would require the approval of unitholders. The constitution is available from the Responsible Entity and is also available from ASIC.

There are no equity incentive schemes in relation to the Trust.

For the reasons noted above and due to the relative size and nature of the Trust's activities the board does not consider it necessary to adopt Recommendations 8.1 (the board should establish a remuneration committee), 8.2 (remuneration committee structure to consist of a majority of independent directors, independent chair and at least three members), and 8.3 (Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives).