

EXTRACT
HBF BOARD GOVERNANCE POLICY

Version 1.12 November 2011

These are the relevant Board Process Policies (which govern Board roles and processes) from the HBF Board Governance Policy, updated with amendments approved by Group Board to November 2011

TABLE of CONTENTS

GLOSSARY	4
1.1 Role of the Board.....	5
1.2 Role of the Chairman.....	8
1.3 Role of the CEO.....	10
1.4 Role of the Company Secretary.....	11
1.5 Role of Board Committees.....	13
1.6 Role of Directors	14
1.7 Role of Subsidiary Boards	16
1.8 Board Code of Conduct	17
1.9 Fitness and Propriety.....	18
1.10 Board Conflict of Interest	20
1.11 Independence of Directors.....	23
1.12 Board Performance Evaluation.....	26
1.13 Director Induction and Development	28
1.14 Other Board Protocols	30
1.15 Board Composition and Renewal	32
1.16 Board Diversity	34

INTERPRETATION

This is the Board Governance Policy of HBF which is the ultimate holding company of a group of companies known as the HBF Group. The Board of HBF is known as the Group Board.

The Board Governance Policy has been adopted by the subsidiaries of HBF and where the context permits, any reference to HBF is taken to be a reference to the relevant subsidiary.

The obligations to HBF of the Chairman, Directors, CEO and Secretary will be read, where the context permits, as obligations to the relevant subsidiary.

The CEO Authority Limits granted to the CEO by HBF will be read, where the context permits, as being granted by the relevant subsidiary to the CEO.

GLOSSARY

Board	The Group Board of HBF and where the context permits the subsidiary Boards of HBF.
CEO	The initial position with executive authority beneath the governing authority of the Board. The CEO manages HBF at the behest of the Board.
Chairman	The position of first amongst equals on the Board with the responsibility of ensuring the Board follows its own rules and the rules imposed by external authorities.
HBF	HBF Health Limited and where the context permits includes its subsidiaries
Subsidiary Board	Boards of the subsidiaries of HBF.

1.1 Role of the Board

1. Role

This policy has been prepared to assist in ensuring the integrity of the Board process. It sets out the Board's agreed view as to its role in the governance process and the manner in which that role will be carried out.

The Board's role is to make certain contributions to the achievement of the HBF Vision and Outcomes, which reflect its stewardship role of members' interests and are necessary for the proper governance and management of HBF.

The role of the Board is to:

1.1 Provide a Linkage with Members

Provide a connection between HBF and its members

1.2 Develop Governing Policies

The policies are written at a strategic level and cover:

- a) Definition of the benefits to be provided by HBF, the needs that are to be met, and the costs to be incurred in doing so (*Outcomes, covering Results, Reach and Resources*)
- b) Prudential and ethical and regulatory limitations binding upon the staff (*CEO Authority Limits*)
- c) Delegation of power and monitoring of its use (Board Executive Relationship)
- d) The manner in which the Board carries out its tasks (*Board Processes*)

1.3 Ensure the Performance of the CEO

The assurance of satisfactory CEO performance (through oversight and evaluation of the CEO).

1.4 Ensure compliance with Legal and Regulatory Requirements

Ensure the organisation has appropriate policy and process in place to comply with all of its contractual, statutory and other legal obligations, including the requirement of any regulatory bodies.

1.5 Ensure Effective Risk Management

Set the risk appetite for the organisation, ensure effective risk management frameworks are in place and that risk management is embedded in the governance process.

1.6 Formulate Strategy

To understand, test, endorse and monitor the strategy of HBF.

2. Governing Style

2.1 The Board will govern with an emphasis on:

- a) Outward vision rather than an internal preoccupation,
- b) Strategic leadership more than administrative detail,
- c) Clear distinction of Board and CEO roles,
- d) Collective decision making rather than decisions by individuals,
- e) Future rather than past or present, and
- f) Pro-activity rather than reactivity.

2.2 The Board will:

- a) Deliberate in many voices, but govern in one.
- b) Cultivate a sense of group responsibility. The Board, not management, will be responsible for excellence in governing. The Board will be an initiator of policy, not merely a reactor to management initiatives. The Board will use the expertise of individual members to enhance the ability of the Board as a body, rather than to substitute the individual judgments for the Board's values.
- c) Direct, control and inspire the organisation through the careful establishment of broad written policies reflecting the Board's values and perspectives. The Board's major policy focus will be on the intended long-term impacts outside the operating organisation, not on the administrative or programmatic means of attaining those effects.
- d) Enforce upon it whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuity of governance capability. Continual Board development will include orientation of new members in the Board's governance process and periodic Board discussion of process improvement. The Board will not allow an officer, individual or committee of the Board to hinder or be an excuse for not fulfilling its commitments.
- e) Monitor and discuss the Board's process and performance periodically. Self-monitoring will include meeting without management, comparison of Board activity and discipline to policies in the Board Process and Board Executive Relationship categories.
- f) Undertake succession planning for both Directors and the CEO.
- g) Guide the development of an appropriate culture and values for the organisation.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Reviewed: November 2010

Next Review: November 2012

1.2 Role of the Chairman

This Policy has been prepared to assist the Chairman in the role of managing the Board and leading beneficial change. It is a Board Processes policy, which means it deals with how the Board governs its own process to ensure the disciplined use of its time and action, through the clarification of roles and accountabilities.

1. Role

The Chairman is responsible for the integrity of the board process and the functioning of the board. This contrasts with the role of the Company Secretary, who is responsible for the integrity of board documents, and the CEO, who is responsible for the functioning of the organisation.

There are two main aspects to the Chairman's role. They are the Chairman's role within the boardroom, and the Chairman's role outside the boardroom.

1.1 Inside the Boardroom

The Chairman shall:

- a) Ensures policies and processes are regularly reviewed and lead improvement initiatives;
- b) Create a constructive relationship with management and act as a conduit between management and the Board;
- c) Be clear on what the Board has to achieve, both in the long and the short term;
- d) Provide firm guidance to other Directors about what is expected of them and respond promptly and comprehensively to concerns raised by other Directors;
- e) Ensure the Board behaves in accordance with its rules and codes of conduct;
- f) Take leadership on corporate governance issues including being aware of Director conflicts of interest and managing those conflicts;
- g) Make Board meetings effective by ensuring that the Board;
 - i) Considers the right matters (eg focuses on strategic issues, settles the Board agenda)
 - ii) Considers matters properly/carefully (eg that papers are adequately researched, that matters in the Board decision making framework have been appropriately addressed, that adequate time is spent on the issue);
 - iii) Ensure the Board creates an appropriate environment for robust discussion;
 - iv) Comes to clear decisions (eg that the resolution is clear as to the intentions of the Board); and

- h) Behave fairly by allowing all Directors equal opportunity and input, whilst at the same time being cognisant of the need for efficient, timely and orderly meetings.

1.2 Outside the Boardroom

The Chairman should:

- a) In conjunction with the Nominations and Remuneration Committee seek to strengthen the composition of the Board and its Committees on an ongoing basis.
- b) Manage relations with the CEO so as to ensure that the Board maintains a good working relationship with the CEO, whilst at the same time ensuring that the CEO's performance is regularly assessed, and results, including areas for improvement, are fed back;
- c) Make the Board's requirements clear to the CEO by acting as the focal point for communications between the Board and the CEO;
- d) Ensure that all Directors encourage and maintain HBF's image and reputation;
- e) Fulfil duties of representative or spokesperson of the Board (eg in presentations to media, or staff). In general the Chairman is the representative on matters of governance, whilst the CEO is the spokesperson on matters relating to the operation of HBF. When representing the Board, the Chairman should limit comments to what the Board has stated, unless the Board has specifically granted further authority;
- f) Regularly review with the CEO, and such other senior executives as recommended by the CEO, progress on important initiatives and significant issues facing HBF;
- g) Engage with management to be kept informed on matters critical to the organisation; and
- h) Provide mentoring for the CEO.

Policy Review

Policy Owner: Group Board
Board Approval: 26 April 2005
Last Reviewed: November 2010
Next Review: November 2012

1.3 Role of the CEO

This policy has been prepared to assist the CEO in the role of ensuring that the organisation directs its functions to the achievement of the Board's strategic Outcomes.

The CEO's relationship to individual Board Directors is defined by an understanding of the Board's collective identity. As the CEO is accountable only to the full Board and as no Board Director has individual authority, the CEO and Board Directors are equals.

1. Role

The Board has delegated all authority and accountability for the operational organisation to the CEO. The CEO is therefore accountable to the Board for the functioning/performance of the organisation. That is for:

- a) achieving Outcomes policies, and
- b) not violating CEO Authority Limits policies.

There are two main aspects to the CEO's role: the CEO's relationship to the Board, and the CEO's relationship to the organisation.

The responsibilities of staying informed of Board goals and providing a clear account of the organisation to the Board are set out in:

- Board Management linkage
- Communication and Support to the Board

The responsibility for the functioning of the organisation is set out in:

- Delegation to the CEO
- Emergency CEO Succession

The CEO's performance is measured according to:

- Monitoring CEO Performance

Policy Review

Policy Owner:	Group Board
Board Approval:	26 April 2005
Last Reviewed:	November 2010
Next Review:	November 2012

1.4 Role of the Company Secretary

1. Role

The Company Secretary is responsible for the integrity of Board documents and ensuring that Board policies are followed and, processes and procedures run effectively and efficiently and follow Board policy.

2. Responsibilities

A Company Secretary is employed as a resource and must be accessible to the Board. The Company Secretary shall:

- a) Provide a secretariat service to the Board and its Committees;
- b) Prepare Agendas and distribute papers for Board meetings in a timely and effective manner;
- c) Take Minutes of Board, its Committees and general meetings, confidentially maintain and distribute the minutes and ensure that the minutes are signed and entered into the relevant minute book in accordance with the provisions of the Corporations Act;
- d) Keep and maintain the Board's Agendas, Minutes, Board Papers, and legal documentation;
- e) Act as Custodian of the Board's Common Seal, and be responsible for the Common Seal Register and records of documents signed by HBF;
- f) Keep and maintain the Board's *Conflict of Interest Register and Register of Interests*.
- g) Keep and maintain and ensure that all Directors have a copy of the Board Governance Policy and associated governance documentation;
- h) Prepare for and attend all annual general meetings and other meetings;
- i) Provide counsel on corporate governance principles, disclosure and Director liability;
- j) Report at each Board meeting the documents executed under power of attorney, the CEO Financial Authority Limits Policy, under seal and in accordance with relevant legislation;
- k) Monitor compliance with the constitution, governance regulations and regulatory requirements;
- l) Work with the Chairman to ensure the effective and transparent operation of the Board and encourage timely implementation of Board decisions; and
- m) Provide any other services the Chairman or the Board may require.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Reviewed: November 2010

Next Review: November 2012

1.5 Role of Board Committees

1. Policy

The Board may, from time to time, establish Committees to help carry out its responsibilities.

If Board Committees are necessary, they will assist the Board's job only, never interfering in the direct link between the Board and the CEO, and never fragmenting the wholeness of the Board's job. Board Committees:

- a) Help the Board, not the management, ordinarily by preparing policy alternatives and implications for Board deliberation;
- b) Report regularly to the relevant boards in relation to their activities through minutes, verbal updates and where necessary written reports;
- c) May not speak or act for the Board except when formally given such authority for specific and time-limited purposes. Such authority will be carefully stated in order not to conflict with the authority delegated to the CEO;
- d) Cannot exercise authority over employees, and in keeping with the Board's focus on the future, Board Committees will ordinarily have no direct dealings with current employee operations. Further, the Board will not impede its direct delegation to the CEO by requiring approval of a Board Committee before an executive action; and
- e) Are to avoid over identification with organisational parts rather than the whole.
- f) To further assist Directors in their deliberations, the Board has established the following committees which report directly to the Board:
 - Audit & Risk Management (Annexure A)
 - Nomination and Remuneration (Annexure B)
 - Finance and Investment Committee (Annexure C)

The Board has the ability to alter the roles of a Committee as it sees fit.

Policy Review

Policy Owner: Group Board
Board Approval: 26 April 2005
Last Reviewed: November 2010
Next Review: November 2012

1.6 Role of Directors

Each Director is accountable for the successful operation of HBF and should:

- a) Contribute as an individual Director to ensure that the Board effectively carries out its role as set out in Policy 1.1 Role of the Board
- b) Comply with the duties imposed on directors by the Corporations Law and relevant regulators;
- c) Prepare thoroughly for each Board and Committee event;
- d) Be forthright in Board meetings, requesting information, raising any relevant issue, fully canvassing all aspects of any issue confronting HBF and voting on any resolution according to his or her own decision. Ensure that others are given a reasonable opportunity to put forward their views. Outside the Boardroom however, Directors will support the letter and spirit of all Board decisions particularly with alliance partners, stakeholders, staff and other parties;
- e) Understand the business risks facing HBF and the mechanisms in place to manage such risks;
- f) When requested provide frank and honest advice to the CEO and senior executives when appropriate and where possible recommend alternative advisors with the skills to assist in dealing with specific issues;
- g) Disclose to the Board, Secretary and Chairman any potential conflicts of interest;
- h) Disclose in writing to the Board any related party transactions;
- i) Act in a manner when in contact with employees that engenders respect and a sense of leadership and team approach;
- j) Where possible and appropriate, to further HBF's interests with outside contacts and networks;
- k) Be available to meet with regulators as requested;
- l) When requested, serve on Board Committees;
- m) Keep confidential all Board discussions and deliberations. Similarly, all confidential information received by a Director in the course of the exercise of the Director's duties remains the property of HBF and is not to be discussed outside the boardroom without the authority of the Chairman;
- n) Be clear as to which entity they are acting when making decisions; and
- o) Be informed and bring an independent judgement to bear on Board decisions.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Review: November 2010

Next Review: November 2012

1.7 Role of Subsidiary Boards

This policy has been prepared to clarify the role of Subsidiary Boards in the achievement of HBF Group's policy objectives.

Subsidiary boards are delegated all authority and accountability for planning and monitoring of the performance of the subsidiary.

Members of subsidiary boards have an obligation to abide by Group policies and instructions other than where such actions are deemed to be incompatible with statutory, regulatory and prudential requirements of subsidiaries.

A Subsidiary board is accountable for:

- a) Ensuring the submission to the Group Board of HBF at least annually of a business plan that is aligned to the strategy and targets that have been defined by the Board.
- b) Monitoring performance against the business plan.
- c) Highlighting significant performance variations from plan and providing the Group Board of HBF with action plans to address variances.
- d) Highlighting major opportunities and recommendations and adjustments to the annual plan as appropriate.
- e) Effective management and compliance with external regulatory obligations.
- f) Compliance with internal Group policies, procedures and standards.
- g) Supervision of subsidiary risk management and compliance.
- h) Referring to the Group Board of HBF any issues that inhibit the Subsidiary Board from meeting its statutory or organisational responsibilities.
- i) Ensuring that the Group Board of HBF endorsement is obtained for any proposed variation or adjustment to any Group policy prior to adoption by a Subsidiary Board.
- j) Ensuring that an effective internal audit plan is in place.
- k) Highlighting major internal audit issues to the Group Board of HBF.
- l) Highlighting major risk exposures to the Group Board of HBF including where Group policy or decisions are deemed to be incompatible with subsidiary Directors statutory, regulatory or prudential obligations.

The boards of non-operating subsidiaries may be comprised only of executives, one of whom must be the CEO, and the CEO or his delegate must attend all meetings of those boards.

Policy Review

Policy Owner:	Group Board
Board Approval:	26 April 2005
Last Review:	November 2010
Next Review:	November 2012

1.8 Board Code of Conduct

The Board of HBF and the Subsidiary Boards have adopted and have agreed to be bound by the Code of Conduct of the Australian Institute of Company Directors detailed below.

1. A Director must act honestly, in good faith and in the best interests of HBF as a whole.
2. A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. A Director must use the powers of office for a proper purpose, in the best interests of HBF as a whole.
4. A Director must recognise that his or her primary responsibility is to HBF 'the company' but they should have regard for the interests of HBF policyholders and where appropriate, the interests of all stakeholders of the organisation.
5. A Director must not make improper use of information acquired as a Director.
6. A Director must not take improper advantage of the position of Director.
7. A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of HBF.
8. A Director has an obligation to be independent in judgement and actions and take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
9. Confidential information received by a Director in the course of the exercise of Board duties remains the property of HBF and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by HBF, or the person from whom that information is provided, or is required by law.
10. A Director should not engage in conduct likely to bring discredit to HBF.
11. A Director has an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code.
12. In addition, the Board of HBF has adopted and agreed to be bound by the following additional rule:
 - A Director shall not be absent from more than two scheduled monthly meetings per annum without the Chairman's express approval.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Review: June 2010

Next Review: June 2012

1.9 Fitness and Propriety

The purpose of this policy is to establish the minimum Group and subsidiary Board standards for determining the fitness and propriety of Directors, which is one of the criteria used in the selection of Directors and a compliance requirement of regulators.

1. Policy Statement

1.1 Criteria to determine fit and proper person

A Director or a prospective Director shall be deemed to be a fit and proper person to hold office if that person can reasonably demonstrate that they:

- a) Possess the competence, character, diligence, honesty, integrity, educational or technical qualifications, knowledge, skills and experience relevant to the Board position;
- b) Have a satisfactory personal and professional background, taking into consideration any known or disclosed instances of criticism, discipline, punishment, or adverse findings, directions or orders, by a court, tribunal, official inquiry, regulatory agency, complaints handling body, professional or industry body.
- c) Have no conflicts of interest in performing the duties of a Director or if a conflict of interest exists, it will not create a material risk that the duties of a Director would not be properly performed.

An existence of a concern in regard to one or more of the above criteria (e.g. a non-material conflict) shall not automatically cause that person to be deemed not fit and proper. The matter, and its severity, should be considered as part of an overall assessment of the fitness and propriety of the person to serve as a Director.

Any finding with respect to a Director's fitness and propriety must be based upon appropriate evidence and must be considered in the context of the role for which the person is being considered, or already fills.

1.2 Assessing the fitness and propriety

The criteria for determining the fitness and propriety will be applied by means of:

- An initial assessment during selection and recruitment;
- National Police Certificate; and
- An annual questionnaire and review.

The criteria for determining fitness and propriety will be applied by the HBF Board acting through its Nomination & Remuneration Committee, to all prospective Directors and annually to all current Directors.

Any finding with respect to a person's fitness and propriety must be based upon appropriate evidence and must be considered in the context of the materiality of any adverse finding.

A prospective or current Director may be asked to provide an attestation to any or all of the components of the fit and proper criteria.

A Director or prospective Director will be made aware of all information collected about them by the organisation as part of testing the fit and proper criteria.

A Director or prospective Director has the right of response to information that could change an assessment of their being a fit and proper person for the role.

1.3 Where deemed not fit and proper

Having assessed the Director or prospective Director in accordance with the above criteria, the Nomination and Remuneration Committee will advise the relevant Board, which will take the necessary steps to ensure that:

- The prospective Director is not appointed; or
- The Director does not continue to hold the position on the Board.

1.4 Reporting to Regulators

HBF will ensure that all reasonable steps will be taken to:

- Disclose to regulators any information required that may be relevant to the annual assessment of fitness and propriety; and
- Disclose to regulators periodic changes affecting the assessment of Directors or prospective Directors.

1.5 Privacy

When an assessment is made HBF will ensure that all reasonable enquiries to obtain information, including collecting sensitive information as defined in the Privacy Act 1988, that it believes may be relevant to an assessment of whether the person is fit and proper to hold a Board position.

HBF will securely retain all documentation obtained to support the fit and proper assessment of Directors. All documentation will be retained for a period of 7 years.

1.6 Whistleblowing

HBF is committed to the highest possible standards of ethical, moral and legal business conduct. The HBF Whistleblowing Policy supports this commitment and HBF's commitment to open communication. The HBF Whistleblowing Policy provides an avenue for Directors to disclose areas of non-compliance to appropriate regulators whilst providing reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith.

Policy Review

Policy Owner:	Group Board
Board Approval:	August 2006
Last Review	June 2010
Next Review:	June 2012

1.10 Board Conflict of Interest

1. Purpose

The objective of this document is to provide guidance where the interests of a member of the Board or a member of a subsidiary board conflict or have the potential to conflict with those of HBF.

A primary purpose of the conflict of interest policy is to protect HBF's interests against circumstances where some or all of a Director's interests may be inconsistent with or divergent from some or all of HBF's interests. In order to preserve the trust of members and external parties HBF must ensure decisions are free from possible conflict or the appearance of conflict arising from any such private interests, and also from any conflicting commitments to other organisations or individuals.

2. Background

HBF, as a company limited by guarantee, and its subsidiaries have obligations under their Constitutions and specific conflict obligations under the Corporations Act regarding disclosure of interests and their impact upon voting rights of Directors. Subsidiary boards have specific conflict obligations in relation to subsidiary business activities. For the purposes of this policy the following definitions apply:

A **conflict of interest** is a circumstance where some or all of a Director's interests may be inconsistent with or divergent from some or all of HBF's interests. These include all conflicts of interest, whether they are actual or potential, and present or future. Conflicts may arise from an individual's affiliation, personal or professional relationship or financial involvement with any organisation, person or entity (related party) where;

- i. That individual derives or may derive a personal benefit from a relationship or transaction whether that be by way of the provision of material or facilities or through the provision of a financial or non financial benefit, or where
- ii. That individual has any managerial, directorial or other senior advisory obligation or involvement with such organisations, persons or entity.

A **related party** refers primarily to an individual's spouse or other "close" family member (depending upon the circumstances) or other corporate, trust or nominee entity or person over whom the individual or related party may substantially exercise influence or control.

A **conflict of interest excludes** a circumstance or event arising only from the Director's or related parties purchasing a product from HBF or holding office in HBF or a subsidiary.

3. Policy Statement

Directors are expected to avoid any action, position or interest that conflicts with an interest of the Group, or could give the appearance of a conflict. A Director who has a material personal or professional interest in a matter that relates to the affairs of the Group must give the other Directors notice of such interest.

It is noted that subsidiary Directors may face potential conflicts between the interests of the subsidiary and the interests of the Group. Directors should at all times be aware of the entity for which they are acting and to which they owe their duty.

Members of subsidiary Boards have an obligation to abide by Group policies and instructions other than where such actions are deemed to be incompatible with statutory, regulatory or prudential requirements of the subsidiary.

Provisions in the subsidiary constitutions will authorise a subsidiary Director to act in the best interests of the Group. However, it is the responsibility of subsidiary Directors to manage and have proper regard to the circumstances and interests of the subsidiary when considering matters where there is a Group position.

Where an individual Director does declare a conflict of interest in a matter, that Director will take no further part in discussions except by mutual agreement between the Board and the Director who has declared the conflict of interest.

3.1 Principal Obligations

- **(disclosure)** each member of the Board must, as soon as he or she becomes aware of his or her interest, disclose it to the Board;
- **(recording)** the Secretary must record every disclosure in a Register of Conflicts of Interest of Directors which is to be available for inspection at any time, including Board meetings;
- **(contents of disclosure)** the disclosure must give details of the nature and extent of the interest and the relation of the interest to the affairs of the company;
- **(timing of disclosure)** the disclosure must be given at a Directors' meeting as soon as practicable after the Director becomes aware of the interest in the matter;
- **(no liability to account)** the Director is not liable to account for profits derived from the matter if he or she has complied with his or her obligation to disclose;
- **(standing disclosure)** a Director of a company may give standing notice of an interest, including before the interest becomes a material personal interest (refer to section 192 of the Corporations Act);
- **(minutes)** HBF must cause every disclosure to be recorded in the minutes of the meeting;
- **(participation)** any Director who has an interest shall not take part in any decisions and related deliberations with respect to that matter except by mutual agreement between the Board and the Director who has declared the conflict of interest.

3.2 Examples of Conflicts of Interest

Each of the following are examples of circumstances which are likely to give rise to a Director having a conflict of interest or prospective conflict of interest (*Relevant Circumstance*):

- *A Director or a related party* has a direct or indirect pecuniary interest in a contract or proposed contract with HBF or a subsidiary;

- *A Director or a related party* holds an office in an entity with which the Director reasonably expects HBF or a subsidiary may have dealings;
- *A Director or a related party* holds an office in an entity which competes or the Director reasonably expects is likely to compete with HBF or a Subsidiary;
- *A Director or a related party* has a material investment, other than a mere portfolio investment where investment discretion substantially resides with a third party, in an entity with which the Director reasonably expects HBF or a subsidiary may have dealings;
- Any other circumstance affecting HBF or a subsidiary where the Director may reasonably believe that the Director cannot exercise judgement with impartiality in the best interests of HBF or the relevant subsidiary.

Policy Review

Policy Owner: **Group Board**
Board Approval: **26 April 2005**
Last Review **June 2010**
Next Review: **June 2012**

1.11 Independence of Directors

The purpose of this policy is to provide;

- Guidance to Directors on how to assess their independence to satisfy regulatory and governance requirements, and;
- For the establishment of procedures to facilitate good corporate governance and legal compliance.

1. Background

HBF, as a company limited by guarantee, and its subsidiaries (“Subsidiaries”) are regulated for these purposes by their Constitutions and the Corporations Act 2001.

The Board recognises that many regulatory authorities advocate for Boards to consist of a majority of independent Directors, have a non-executive independent chairman, and have an audit committee whose members are all independent. This approach ensures that all Board discussions and decisions have the benefit of outside views and experience.

The Australian Stock Exchange Corporate Governance Council’s “Principles of Good Corporate Governance and Best Practice Recommendations” (ASX Principles), impose requirements on publicly listed companies in relation to the independence of Directors. Whilst HBF is not bound by the ASX Principles the Board has decided to adopt the Principles and recommendations in relation to Directors’ independence. Therefore the HBF Board and all Subsidiary Boards will include a majority of Directors who can be defined as independent Directors.

Reference to Director in this policy means members of the HBF Board and members (Directors) of subsidiaries boards.

In this Policy, “group entity” means HBF and/or any of its subsidiaries.

2. Policy Statement

2.1 Policy

- a) Boards of significant operating entities will have a majority of independent Directors and the Chairman will be an independent Director;
- b) An independent Director is a Director who;
 - Is not currently also a member of management in a group entity (i.e. is a non-executive Director);
 - In the case of a subsidiary, is not a substantial shareholder in that entity, or an officer of, or otherwise associated directly with, a substantial shareholder in that entity (applicable to subsidiaries that are Pty Ltd companies);
 - Within the last 3 years, has not been employed in an executive capacity by a group entity, or been a Director after ceasing to hold any such employment;

- Within the last 3 years has not been a principal of a material professional adviser or a material consultant to a group entity, or an employee materially associated with the service provided;
 - Is not a material supplier or customer of a group entity, or an officer of, or otherwise associated directly with, a material supplier or customer;
 - Has no material contractual relationship with a group entity, other than as a Director of one or more group entities;
 - Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the group entity;
 - Is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the group entity.
- c) An independent Director will continue to be considered independent if appointed to other group boards.

2.2 Further explanations to define a Board of member's independence

a) Independence Assessment and Reporting

Directors will complete a detailed questionnaire covering all potential impairments to independence prior to appointment and annually prior to the preparation of the governance section in the Annual Report.

The Board is to regularly assess the independence status of its Directors in light of interests disclosed by them. Each independent Director should provide to the Board all relevant information.

Directors will be required to disclose any changes in circumstances to their assessment of their independence as soon as practicable after they become aware of such change.

Where the independence of a Director is uncertain and this determination is relevant to a regulator, the matter should be referred to the relevant regulator. For example APRA requires "If the Board is in doubt regarding a Director's independence, the insurer must refer the matter to APRA".

b) Materiality

The test of whether a relationship referred to in 2.1 above is material is based on the nature of the relationship and the circumstances of the Director. Materiality is considered from each of the perspectives of the group entity, the Director, and the person or entity with which the Director has a relationship.

Directors will be asked if the amount of income received by them from HBF or its subsidiaries is material in relation to the total income received by them. The relationship will be:

- i) Immaterial if income from group entities is less than 5% of total income received;

- ii) Material if income from group entities is more than 10% of total income received; and
- iii) In between those limits – the Director will be asked to make their own judgment.

From the group entities' perspective, a transaction with the Director or the person or entity with which that Director has a relationship, will be material if in excess of 5% of the lesser of total costs or net surplus/deficit of the particular group entity involved.

c) Tenure

Tenure of each Director is important to the assessment of independence. Independence can be impaired by a Director's involvement with the Group's executives and alignment with Group strategies.

A period of 10 years is considered to be a reasonable period of tenure on the Board, however the circumstances of each Director and the structure and skill set of the Board at the time of assessment will be taken into account.

The Board may extend the Director's tenure for an appropriate period beyond 10 years after taking into account the Director's contribution and the required skill set of the Board.

d) Family and cross Directorship interests and relationships

Family ties and cross Directorships may be relevant in considering interests and relationships which may compromise independence and should be disclosed by Directors on that basis.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Revised: June 2010

Next Review: June 2012

1.12 Board Performance Evaluation

1. Purpose

The Board recognises that it is important to continually seek to improve its governance of HBF. A key task in that process is to routinely evaluate Board and Director performance and to identify opportunities for improvement.

2. Board Performance Evaluation

The purpose of the Board performance evaluation is to assist the Directors, individually and collectively, to identify opportunities to improve performance.

The review should assess the Board's performance in regard to its role as defined in the Board Processes Policy including the Board responsibilities of setting policy and strategy, effectively managing risk, meeting obligations to regulators, monitoring of performance and management of the CEO.

The Board will undertake a board performance evaluation annually, with an externally facilitated review being undertaken every 3 years. The survey and discussion process for the annual Board evaluation will be determined by the Board from time to time.

The Board will also review the performance of Board Committees annually.

3. Responsibilities in relation to Board Performance Evaluation

It is the role of the Chairman to initiate the performance evaluation process at least annually.

The Chairman should ensure the process is effective and includes review of:

- The Board
- Individual directors
- The Chairman

The key responsibilities of the Chairman in regard to the annual performance evaluation process are to ensure that:

- Individual directors undertake self assessments and evaluations;
- The Board undertakes an evaluation of its own performance (collectively).
- That the reviews are forward focused, productive and will be directed at ensuring the directors and Board are, or will be, equipped with appropriate skills to meet forthcoming requirements.
- Board evaluation of the Chairman is undertaken.
- Areas where collective skills and experience do not meet Board and Group requirements are identified.

Individual Directors are expected to:

- Assess all performance objectively and critically.

- Participate in the Board evaluation of its own performance.
- Participate in the evaluation of own performance.
- Participate in the evaluation of the Chairman's performance.

Individual Director performance evaluation will include:

- Director Competencies;
- Fitness to be a Director and independence;
- Director contribution, preparation and other performance indicators to be assessed in accordance with a process determined by the Board from time to time.

Following the evaluations the Board and Chairman will determine the education, skills, assistance and any changes in process required to achieve the identified improvements. The Chairman, in conjunction with the Nomination and Remuneration Committee may also consider the Board structure and membership to acquire the skills needed.

Policy Review

Policy Owner: Group Board
Board Approval: 26 April 2005
Last Reviewed: June 2011
Next Review: June 2013

1.13 Director Induction and Development

1. Purpose

The effectiveness of a board is dependent upon the quality of the members of the board and their ability to work together. Director induction and development are therefore of critical importance to the effective performance of the Board.

This policy defines the agreed Board position in relation to the induction and development of Directors.

2. Induction of new Directors

It is the role of the Chairman to ensure new directors are appropriately inducted to enable them to contribute effectively, such induction should include:

- Discussing the responsibilities, conduct and contribution expectations of Directors with new Directors;
- Current Directors providing new Directors with insight on industry and company issues, board governance and process;
- Advising new Directors of the regulatory environment of HBF;
- Providing guidelines on how the Board processes function;
- Reviewing with management the current risk register to understand the key risks that will require monitoring by the Board;
- Reviewing with management the current financial statements to understand the key financial drivers of the business;
- Providing background information on and contact details for key people in HBF including an outline of their roles, accountabilities and capabilities;
- The CEO providing an industry background briefing;
- New Directors having access to the current version of the Board manual;
- New Directors having access to previous copies of Board and committee papers and minutes to enable participation in Board meetings and understanding of the issues currently before the Board;
- New Directors having access to relevant Board information including current versions of key performance indicators, CEO context documents, strategic objectives, risk registers and financial statements;
- New Directors being apprised of issues of recent interest and significant communications; and
- Providing new Directors the option to take up a mentoring program if they desire.

3. Director Development

The role of a Director places emphasis on vision, strategy, sound commonsense and business judgement. Directors are therefore encouraged, and expected, to undergo continued professional and self-development, particularly in these areas.

Directors who wish to attend a course at HBF's expense should approach the Chairman for approval.

HBF will pay or assist in payment for attendance at relevant conferences in accordance with the policies and procedures in place from time to time. Annexure 1.13A is the Board budget for the current year and estimates for future years.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Reviewed: June 2011

Next Review: June 2012

1.14 Other Board Protocols

1. Purpose

The purpose of this document is to detail a number of protocols related to the Board that do not justify individual policies however are of sufficient importance to be included in the policy framework.

This policy sets out the Board's agreed position on:

- a) The rights of Directors to access information from management;
- b) Directors and Officers Indemnity Insurance.

2. Director Access to Information

The Secretary must hold Board papers for a Director to access:

- (a) During the Director's period of office as a Director of HBF or a Subsidiary Board; and
- (b) For 7 years after that period has ended or the completion of any action, enquiry or hearing (which began prior to end of the 7 year period) whichever is the later.

Unless HBF and the Director agree otherwise, during the period in (b) above, the Director will only have access to, and the right to take copies of, Board papers, where, in relation to the Director's performance as a Director,

the Director is (or there is a reasonable prospect the Director will be)

- (a) Defending legal proceedings; or
- (b) Required to appear before an enquiry or a government agency:

for the sole purpose of the Director conducting those legal proceedings, or appearing before or preparing to appear before that hearing or inquiry.

Notwithstanding the paragraph above, HBF will not unreasonably withhold consent to giving a Director access to, or copies of, Board papers to deal with matters relating to that Director's personal circumstances or interests.

If the Board reasonably believes HBF (but not the Director) is entitled to legal professional privilege in respect of a particular Board Paper, HBF must make that Board Paper available to the Director only if there is a reasonable prospect that the Director will be:

- a) A party to, or required to give evidence in, a legal proceeding, or
- b) The subject of a valid investigation by a Government Agency,

which relates to an act or omission of the Director as a Director of HBF.

3. Directors and Officers Indemnity Insurance

HBF will maintain Director's and Officer's insurance for each Director during the period he or she is on the Board, and for 7 years after the date on which he or she has ceased to be a Director as detailed in the Access Insurance and Indemnity Deed between HBF and each director.

Policy Review

Policy Owner: Group Board

Board Approval: 26 April 2005

Last Reviewed: June 2011

Next Review: June 2013

1.15 Board Composition and Renewal

1. Purpose

The long-term effectiveness of the Board is dependent upon the quality of the members of the Board and their ability to work together along with the achievement of a considered balance between the ongoing reinvigoration of the Board and the retention of expertise and business knowledge. The Board composition, member selection and Board renewal are of critical importance to the effective performance of the Board.

This policy defines the agreed Board position in relation to the Board composition, member selection and Board renewal.

2. Board Composition

To ensure HBF Boards maintain an appropriate mix of skills, dynamics and independence all operating Boards will:

- have an appropriate minimum number of directors at all times, a majority of whom will ordinarily reside in Australia;
- have a majority of independent directors;
- have a Chairman that is an independent director and has not held the position of Chief Executive Officer at any time in the previous three (3) years; and
- ensure that the role of the Chairman and the Chief Executive Officer is not held by the same person.

Boards of significant operating subsidiaries will have a minimum of five (5) directors.

3. Board Renewal

As the ultimate parent entity, the HBF Board will determine and nominate the Directors for the 100% owned subsidiaries.

The Subsidiary Boards should provide input on renewal via the Nomination and Remuneration Committee.

Ongoing renewal will be effectively managed to ensure that the Board remains open to new ideas and independent thinking whilst retaining adequate expertise and business knowledge.

This will be achieved through an annual review of Board composition and succession planning that includes current and future Board requirements, Board and Director performance, independence, diversity and the balance between new ideas and business knowledge. The Board may choose to use an external facilitator in the review.

The Nomination and Remuneration Committee will make recommendations on these matters.

4. Nomination and Remuneration Committee

The Nomination and Remuneration Committee will advise the Board in relation to Board (including Subsidiary Boards and Committees) composition and the selection of new Directors.

In providing advice, the Nomination and Remuneration Committee will consider:

- Policy issues relating to Board composition including diversity;
- Board renewal, reinvigoration and succession planning;
- Board and Director performance; and
- Board dynamics including personal qualities and behavioural styles;

The Committee will then:

- Conduct a gap-analysis to determine the skills and experience required having regard to diversity;
- Develop the criteria against which potential candidates can be assessed; and
- Recommend a shortlist of people to the Board for consideration.

Policy Review

Policy Owner: Group Board

Board Approval: September 2006

Last Reviewed: June 2011

Next Review: June 2013

1.16 Board Diversity

1. Purpose

The Australian Stock Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations" (ASX Principles) impose requirements on publicly listed companies in relation to diversity. Whilst HBF is not bound by the ASX Principles the Board regards the ASX Principles as statements of good governance practice and has committed to review adoption of the principles on a case by case basis.

The ASX Principles incorporate a clear focus on gender diversity as one of their primary objectives is to address the significant gender imbalance that is evident amongst listed company directors and senior executives.

At the time this policy was developed HBF had a culture that embraced the broad diversity objectives of the ASX Principles and had appropriate gender diversity at Board, senior management and management levels and there were no evident diversity issues.

Consequently, the Board has decided not to adopt the specific ASX Principles in relation to diversity with their gender based objectives and targets but to adopt a policy that incorporates generic diversity principles consistent with those that provide the foundation of the ASX approach.

The thrust of the Board policy is to reinforce the benefits of diversity and to maintain an appropriately diverse Board composition.

This policy defines the agreed Board position in relation to Board diversity.

2. Policy

The Board embraces the benefits of diversity in enriching the range of available perspectives and enhancing organisational performance.

The Board recognises the benefits of diversity in skills, experiences, perspectives, styles and attributes gained from culture, gender, age or otherwise and is committed to maintaining a diverse composition in order to achieve the benefits that come from access to such perspectives.

The Board will review annually its composition and if necessary will set measureable objectives and implement initiatives in relation to the diversity of its composition.

As part of its annual review of Board composition the Nomination and Remuneration Committee will monitor, review and report to the Board with respect to the diversity of the Board.

The Board will disclose in its annual report the existence of this policy and provide statistics on the gender balance at board, executive and management levels.

Nothing in this policy endorses:

- the principal criteria for selection being other than those required to enhance Board effectiveness and achieve the HBF Outcomes and Strategy;
- discriminatory behaviour; or
- breach of the Board code of conduct.

Whilst this policy addresses diversity of the Board itself, the Board will ensure, through the CEO Limitations Policies and associated Management Interpretations, that the CEO implements a similar approach to diversity throughout HBF.

Policy Review

Policy Owner: Group Board

Board Approval: August 2011

Last Reviewed:

Next Review: June 2013