

# SKYWEST AIRLINES LTD AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

Updated 27 September 2011

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### CORPORATE GOVERNANCE

#### Statement on Corporate Governance at Skywest

This statement reports on Skywest's key governance framework, principles and practices. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and good practice in corporate governance.

#### ASX Principles of Corporate Governance

Skywest must comply with the laws of Singapore, the Corporations Act 2001 (Cwth) ("**Corporations Act**"), the Australian Securities Exchange ("**ASX**") Listing Rules ("**ASX Listing Rules**"), other Australian securities laws, the Alternative Investment Market ("**AIM**") Listing Rules, other UK securities laws and any other required listing rules.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Corporate Governance Principles and Recommendations ("**ASX Principles**") published by the ASX Corporate Governance Council. The ASX Principles require the Board to consider the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

#### Compliance with ASX Principles of Good Corporate Governance

Details of Skywest's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant paragraphs below, is provided in the final section of this statement. Skywest notes that it is reporting against the August 2007 version of the ASX Principles.

#### Board Functions

The board seeks to identify and satisfy the expectations of its shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the board. The responsibility for the overall operation and administration of the Group is delegated by the board to the Executive Chairman and the executive management team, with the CEO (Mr Shelton) and the other members of the executive management team being responsible for various aspects of the day to day operations of the Group. The board ensures that these people are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Executive Chairman and the executive management team.

Whilst at all times the board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the board.

To this end, the board has established the following committees:

- Audit
- Nomination

- Remuneration

The roles and responsibilities of these committees are discussed throughout this corporate governance statement. Skywest also maintains a Corporate Governance page on its website for the purposes of AIM Rule 26, which is available at [www.advent.com.sg/aim26](http://www.advent.com.sg/aim26).

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board. The board has a number of mechanisms in place to ensure this is achieved, including:

- the board's approval of a strategic plan designed to meet shareholders' needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the Group.
- Implementation of budgets by management and monitoring progress against budget - via the establishment and reporting of both financial and non-financial key performance indicators.
- Management of senior executives.

Other functions reserved to the board include:

- Approval of the annual and half-yearly financial reports.
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.

ASX CGC 1.1; 1.2; 2.3

### Structure of the Board

The relevant skills, experience and expertise held by each director in office at the date of the annual report are included in the annual report.

The Directors of Skywest have been in office for the following periods:

<b>Name</b>	<b>Years in Office</b>
Robert Jeffries Chatfield	13 years
Seah Kian Peng	11 years
John Leonard Jost	7 years
Ronald Lewis Aitkenhead	4 years

Directors of Skywest are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. (ASX CGC 2.6)

The following directors of Skywest are considered to be independent:

<b>Name</b>	<b>Position</b>
Seah Kian Peng	Non-executive director
John Leonard Jost	Non-executive director
Ronald Lewis Aitkenhead	Non-executive director

(ASX CGC 2.1)

The board advises shareholders that Mr Chatfield, the Executive Chairman, is not considered independent. However, the board believes that Mr Chatfield is the most appropriate person to lead the board and that he is able to and does bring quality judgement to all relevant issues falling within

the scope of the role of Chairman and that the Group as a whole benefits from his long standing experience of its operations and business relationships. *ASX CGC 2.3*

There are procedures in place, agreed by the board, to enable directors in furtherance of their duties to seek independent professional advice at Skywest's expense.

For additional details regarding board appointments, please refer to our AIM Rule 26 website.

### **Board Performance**

The board undertakes self assessments and reviews in respect of its performance and the performance of its committees and the individual directors at least once every 2 years. The board is responsible for evaluating the Executive Chairman's performance on an ongoing basis. *ASX CGC 2.5*

The performance criteria against which the Executive Chairman and the management team are assessed are aligned with the financial and non-financial objectives of Skywest. *ASX CGC 1.2*

The board did not undertake a self-assessment or review of its performance or the performance of its sub-committees and directors during the reporting period. However, the board intends to undertake these evaluations within the next 12 months.

### **Trading Policy**

Under Skywest's securities trading policy, an executive or director must not trade in any securities of Skywest at any time when they are in possession of unpublished, price-sensitive information in relation to those securities. *ASX CGC 3.2*

As required by AIM and ASX listing rules, Skywest notifies the AIM and ASX of any transaction conducted by directors in the securities of Skywest.

### **Nomination Committee**

The board has established a nomination committee, which meets at least annually, to ensure that the board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. *ASX CGC 2.4*

The nomination committee comprised the following members:

- Robert Jeffries Chatfield (Committee Chairman)
- Seah Kian Peng
- Ronald Lewis Aitkenhead

For details of directors' attendance at meetings of the nomination committee, please refer to the directors' report.

For additional details regarding the nomination committee including its charter please refer to our AIM Rule 26 website.

### **Audit Committee**

The board has established an audit committee, which operates under a charter approved by the board. The committee meets at least twice a year. It is the board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the audit committee. *ASX CGC 4.1*

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

The members of the audit committee during the year were:

- John Leonard Jost (Committee Chairman)
- Ronald Lewis Aitkenhead

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, please refer to the directors' report.

For additional details regarding the audit committee, including a copy of its charter, please refer to our AIM Rule 26 website.

## Risk

The board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of Skywest's approach in creating long-term shareholder value.

In recognition of this, the board determines Skywest's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so the board has taken the view that it is crucial for all board members to be a part of this process and as such, has not established a separate risk management committee. *ASX CGC 7.1*

The board oversees assessment of the effectiveness of risk management and internal compliance and control. The day to day tasks of undertaking and assessing risk management and internal compliance and control are delegated to management through the CEO (Mark Shelton), who is responsible for the design and implementation of Skywest's risk management and internal control system. Management reports to the board on Skywest's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management is a periodic agenda items at monthly board meetings. *ASX CGC 7.2*

For the purposes of assisting investors to understand better the nature of the risks faced by Skywest, the board has prepared the following list of operational risks as part of the Principle 7 disclosures. However, the board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

Key operation risks:

- Fluctuations in commodity prices, exchange rates & demand volumes.
- Political instability/sovereignty risk in some operating sites.
- The occurrence of force majeure events by significant suppliers.
- Increasing costs of operations, including labour costs.
- Changed operating, market or regulatory environments as a result of climate change.

Underpinning Skywest's risk management efforts is a comprehensive set of policies and procedures directed towards achieving the following objectives in relation to the requirements of Principle 7:

- Effectiveness and efficiency in the use of Skywest's resources.
- Compliance with applicable laws and regulations.
- Preparation of reliable published financial information.

## Remuneration

It is Skywest's objective to provide maximum shareholder benefit from the retention of a high quality board and management team by remunerating directors and the management team fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this

objective, the remuneration committee links the nature and amount of such remuneration to Skywest's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key members of the management team.
  - Attraction of high quality management to Skywest.
  - Performance incentives that allow management to share in the success of Skywest.
- ASX CGC 8.2*

The board is responsible for determining and reviewing compensation arrangements for the Executive Chairman, the CEO and the other members of the management team. The board has established a remuneration committee, comprising the following two non-executive directors:

- John Leonard Jost (Committee Chairman)
- Ronald Lewis Aitkenhead

*ASX CGC 8.1*

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, please refer to the directors' report.

For additional details regarding the remuneration committee, including a copy of its charter, please refer to our AIM Rule 26 website.

# ASX PRINCIPLES COMPLIANCE STATEMENT

The table below summarises Skywest's compliance with the ASX Principles.

	<b>Recommendation</b>	<b>Comply Yes / No</b>	<b>Reference / Explanation</b>
<b>Principle 1 - Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	
<b>Principle 2 - Structure the board to add value</b>			
2.1	A majority of the board should be independent directors.	Yes	ASX CGC 2.1
2.2	The chair should be an independent director.	No	Mr RJ Chatfield does not satisfy the definition of an independent director.
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	
2.4	The board should establish a nomination committee.	Yes	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Developing	ASX CGC 2.6 Further details relating to Principle 2 are to be included on the website.
<b>Principle 3 - Promote ethical and responsible decision-making</b>			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>- The practices necessary to maintain confidence in the company's integrity.</li> <li>- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.</li> <li>- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Developing	The Company does not have a formal policy.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and the progress in achieving them.	Developing	The Company has not have a formal policy. However the Company complies with all requirements as mandated by Fair Work Australia, Equal Opportunity Act and relevant state legislation.
3.3	Companies should disclose in each annual report the measurable Objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Developing	
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	Yes	475 Employees: 198 female, 277 male 9 Senior Managers: 2 female, 7 male 4 Board Members: All male.

3.5	Companies should provide the information indicated in the Guide to Reporting on principle 3	Developing	
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**Principle 4 - Safeguard integrity in financial reporting**

4.1	The board should establish an audit committee.	Yes	ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>- Consists only of non-executive directors.</li> <li>- Consists of a majority of independent directors.</li> <li>- Is chaired by an independent chair, who is not chair of the board.</li> <li>- Has at least three members.</li> </ul>	Partial	The Audit committee consists of only two Members, all other conditions are satisfied.
4.3	The audit committee should have a formal charter.	Yes	
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Developing	Charter to be included on the website.

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

5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Skywest has a communications policy and gives careful consideration to the views expressed by its Australian lawyers and similar professional service providers.
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	

**Principle 6 - Respect the rights of shareholders**

6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	See policy on website.

**Principle 7 - Recognise and manage risk**

7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and 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 Skywest's management of its material business risks.	Yes	ASX CGC 7.2
7.3	The board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	N/A	N/A
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Developing	A summary of the risk oversight policies needs to be included on the website.

**Principle 8 – Remunerate fairly and responsibly**

8.1	The board should establish a remuneration committee.	Yes	ASX CGC 8.1
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>- Consists of a majority of independent directors</li> </ul>	Partial	The Reumeration committee consists of

	- Is chaired by an independent chair - Has at least three members.		only two members, all other conditions are satisfied.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	ASX CGC 8.4

## ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 30 June 2011.

### (a) Distribution of equity securities

#### (i) Ordinary share capital

200,040,000 fully paid ordinary shares are held by 933 individual shareholders (including those who hold CHESS or CREST depository interests).

All issued ordinary shares carry one vote per share and carry the rights to dividends.

#### (ii) Warrants

5,300,000 warrants are held by 7 individual warrant holders.

Warrants do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

	<b>Fully paid Ordinary Shares</b>	<b>Warrants</b>
1 - 1,000	79	-
1,001 - 5,000	351	-
5,001 - 10,000	154	-
10,001 - 100,000	256	1
100,001 and over	93	6

Holding less than a marketable parcel: 88

### (b) Substantial shareholders

<b>Ordinary shareholders</b>	<b>Number</b>	<b>Percentage</b>
Apollo Nominees Limited	15,095,972	7.5464%
UBS Nominees Pty Ltd <PB SEG A/C>	13,340,403	6.6688%
Citicorp Nominees Pty Limited	12,973,538	6.4854%
Credit Suisse Securities (Europe) Limited	12,107,440	6.0525%
Fitel Nominees Limited <0061403>	10,921,867	5.4598%

**(c) Twenty largest holders of quoted equity securities and depository receipts**

<b>Ordinary shareholders</b>	<b>Number</b>	<b>Percentage</b>
Apollo Nominees Limited	15,095,972	7.5464%
UBS Nominees Pty Ltd <PB SEG A/C>	13,340,403	6.6688%
Citicorp Nominees Pty Limited	12,973,538	6.4854%
Credit Suisse Securities (Europe) Limited	12,107,440	6.0525%
Fitel Nominees Limited <0061403>	10,921,867	5.4598%
Hargreave Hale Nominees Limited	9,798,988	4.8985%
Chase Nominees Limited <Artemis>	9,000,000	4.4991%
Fitel Nominees Limited <0067873>	7,000,000	3.4993%
UBS Wealth Management Australia Nominees	6,377,019	3.1878%
National Nominees Limited	5,824,650	2.9117%
Queensland Investment Corporation	4,880,000	2.4395%
HSBC Global Custody Nominee (UK) Limited	4,500,000	2.2495%
Smith & Williamson Nominees Limited	3,732,000	1.8656%
Fitel Nominees Limited <0070851>	3,173,743	1.5865%
L R Nominees Limited	2,991,458	1.4954%
Barclayshare Nominees Limited	2,947,099	1.4732%
Pershing Nominees Limited <SKCLT>	2,774,901	1.3871%
Fitel Nominees Limited <C052452>	2,400,000	1.1997%
Mr Robert Jeffries Chatfield	2,400,000	1.1997%
Vidacos Nominees Limited	2,327,205	1.1633%

**(d) Unquoted equity securities shareholdings greater than 20%**

Skywest has no unquoted equity security shareholdings in issue.