



ABN 99 080 135 913

FLAGSHIP INVESTMENTS LIMITED

OUTSOURCING POLICY

A INTRODUCTION

This document is Flagship Investments Limited's (Company)'s policy and procedure for management of outsourcing arrangements.

A1 Background

The Company may choose to contract external parties to perform business activities on its behalf. Reasons for this may include supplementing of resources or risk reduction. Even if the Company outsources a function, it is still responsible for it. Therefore, it is important that the Company ensure that appropriate controls are in place where a material business activity is outsourced.

A2 Commencement

This policy commences on 1 May 2009.

A3 Application of Policy

This procedure is to be followed prior to and following outsourcing of a Material Business Activity.

B REQUIREMENT TO MANAGE OUTSOURCING ARRANGEMENTS

B1 What is Outsourcing?

Outsourcing is an arrangement between one entity (Company) and another entity (service provider) for the performance of business activities.

B2 What is a Material Business Activity?

A Material Business Activity is one where:

1. There would be a financial impact exceeding \$100,000 due to poor performance by the service provider or failure of the service provider to perform the relevant activity over a given period.
2. There would be reputation impact due to poor performance by the service provider or failure of the service provider to perform the relevant activity over a given period.
3. The cost of the outsourcing arrangement is greater than \$150,000 or 5% of the Company's total revenue, whichever is the greater.
4. The degree of difficulty (including time taken) to find an alternative service provider or to bring the activity in-house is high; and
5. The Company would have difficulty in meeting its legal and compliance obligations if a problem arose with the service provider.



B3 The Company's approach

All outsourcing arrangements other than a Material Business Activity are delegated to the Managing Director. The Company is committed to managing its outsourcing arrangements by:

- ◆ Performing due diligence on service providers prior to outsourcing Material Business Activities.
- ◆ Ensuring that outsourcing agreements meet specific guidelines.
- ◆ Monitoring service providers on an ongoing basis.

C THE COMPANY'S OUTSOURCING ARRANGEMENTS

C1 Due Diligence on Service Providers

This process should be undertaken prior to any outsourcing of a Material Business Activity. A due diligence report should be prepared and submitted to the Company Board for approval.

This due diligence report will address the following:

1. Material factors that would impact on the service provider's ability to perform the business activity.
2. The financial stability of the service provider.
3. The service provider's systems and technical capabilities.
4. The service provider's internal control framework including:
 - a) Performance standards.
 - b) Policies and procedures.
 - c) Compliance arrangements; and
 - d) Reporting and monitoring processes.
5. Any past issues that the service provider has faced and how they were addressed.

C2 The Outsourcing Agreement

All outsourcing agreements relating to Material Business Activities must:

- a. Be in writing.
- b. State the commencement date of the agreement.
- c. Contain default arrangements including.
 - 1) What constitutes a default event?
 - 2) How and when events of default will be dealt with.
- d. Contain termination provisions including.
 - 1) Circumstances that would lead to termination.
 - 2) Possible reasons for terminating the agreement.
 - 3) Procedures to be followed in the event of termination including notice periods, rights and responsibilities of the parties.
 - 4) Access to and ownership of records in the event of termination.
 - 5) Time period for continuity of business activities to be undertaken by the service provider.
 - 6) Handover practices.
 - 7) Transition arrangements if the activity is brought back in-house or outsourced to another service provider on a transitional or ongoing basis.



- e.** Contain dispute resolution mechanisms which:
 - 1) Define procedures for managing disputes.
 - 2) Enable the continued operation of the outsourced activity while issues are being dealt with; and
 - 3) Include conciliation and arbitration arrangements.
- f.** Contain liability and indemnity provisions detailing the extent of liability of each party. The service provider should not limit their liability for negligence. Indemnity provisions should provide details of the service provider's insurance arrangements.
- g.** Contain confidentiality, privacy and security of information provisions. These provisions should allow for the imposition of penalties or termination of the agreement if the service provider breaches.
- h.** Contain a pricing, fee and payments structure in relation to the performance of the Material Business Activity. This structure should set out explicit pricing arrangements, covering issues such as frequency of payment, invoicing and payment procedures.
- i.** Contain audit, monitoring and assessment procedures including:
 - 1) Service levels.
 - 2) Performance requirements; and
 - 3) Extent to which the Company's auditors can obtain sufficient information (possibly by onsite inspections) to satisfy themselves of the adequacy of risk management systems.
- j.** Provide for business continuity planning including:
 - 1) Transfer protocols relating to handover of functions from the service provider to either a successor service provider or the Company, on cessation of the agreement.
 - 2) Arrangements for dealing with financial or capacity problems experienced by the service provider, such as voluntary administration or insolvency; and
 - 3) The service provider's Business Continuity Plan. This should address:
 - i. Problems arising internally resulting from internal or external factors.
 - ii. Agreed period for normal service levels to be restored in the event of a problem; and
 - iii. Back up of data and software.
- k.** Provide the Company with access to information held by the service provider in relation to the outsourced activity, subject to being given a request in writing and reasonable notice.
- l.** Provide the Company with access to premises including on-site visits and access to any documents held in relation to the outsourced activity on the service provider's premises.
- m.** Provide the Company with the right to require an audit of the service provider's activities; and
- n.** Provide that any arrangement under which the Material Business Activity is sub-contracted to another service provider must comply with the agreement.



C3 Monitoring and oversight

The Company will monitor material service providers as follows:

a. Regular reporting

Service providers will be required to provide regular sign-offs (at least half-yearly) to the Company, confirming that they are complying with the service agreement.

b. Annual Service Provider Review

The Company's Audit and Risk Committee will conduct an annual service provider review. The review will include:

- a) Review of service agreement.
- b) Review of regular sign-offs provided by the service provider.
- c) Review of any problems/issues encountered with the service provider during the period.
- d) The financial stability of the service provider.
- e) The service provider's systems and technical capabilities.
- f) The service provider's internal control framework including:
 - i. Performance standards.
 - ii. Policies and procedures.
 - iii. Compliance arrangements; and
 - iv. Reporting and monitoring processes.

C4 Review

This Company's Outsourcing Policy will be reviewed not less than annually by the Board.