

CORPORATE GOVERNANCE

The Board of ARB Corporation Limited is committed to high standards of corporate governance and supports the principles of good corporate governance and best practice recommendations as published in the Second Edition Corporate Governance Guidelines of the ASX Corporate Governance Council in August 2007 and revised subsequently.

ASX Listing Rule 4.10 requires ARB to disclose the extent to which it has followed these best practice recommendations. This statement outlines the key corporate governance practices of ARB, as they relate to the recommendations of the ASX Corporate Governance Council.

The Board recognises that some practices are more relevant to larger companies. The Board has adopted those practices that it believes will maximise long term shareholder value given ARB's specific circumstances.

1. The Roles of the Board and Management

The Board of Directors is responsible for increasing shareholder value through leadership and direction of the Company. Matters reserved for the Board include:

- setting the strategic direction of the Company
- appointing and reviewing the performance of the Managing Director
- setting objectives for which the Managing Director is responsible
- approving major investment decisions and financial budgets
- monitoring financial and operating performance
- determining capital, funding and dividend policies
- planning Board and management succession
- defining the limits to management's responsibilities
- ensuring the Company complies with the law and conforms to the highest standards of financial and ethical behaviour.

Board Meetings are held regularly and the Board meets on other occasions to deal with matters that require attention between scheduled meetings.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Managing Director, the

Executive Directors and the Departmental Executives.

The Board of ARB and senior management monitor the performance of all Divisions through the preparation of weekly management reports and monthly management accounts.

The weekly management reports are circulated to all Board members to ensure that they are aware of key developments within the Company and in the industry and environment in which it operates.

The monthly management accounts are prepared using accrual accounting techniques and report each Division's results. These monthly management accounts are compared by management with monthly targets. Each Division has key performance indicators and reports to the Board monthly.

The monitoring of ARB's performance by the Board and management assists in identifying the areas where additional attention is required.

The Executive Directors evaluate the performance of the senior management team on an informal basis throughout the year and on a formal basis once per year.

2. The Structure of the Board

The composition of the Board is determined in accordance with ARB's constitution and the ASX Listing Rules.

The Board regards a Director as independent if he or she is free from any material interest in, or other material relationship with, the Company, other than as a Director, which could reasonably be perceived to materially interfere with the Director's ability to exercise independent judgement with respect to the matter being considered. Independence and materiality are considered by the Board in the context of all of the relevant circumstances.

The Board presently comprises three Executive Directors and three independent non-executive Directors. The Board believes that, at present, this structure combines the skills, experience and efficiency of operation best suited to governing the Company.

The Executive Chairman currently carries out the roles of Chairman and Managing Director and has done so since the company listed on ASX in 1987. The Board acknowledges the recommendation of the ASX Corporate Governance Council that these roles be carried out by different people and the Chairman be a non-executive Director. However, the Board believes that the wealth of knowledge and expertise of the current Chairman and his interest in

the Company as a substantial shareholder, make it appropriate for him to be the Chairman and Managing Director.

For the same reasons, the Board does not comprise a majority of independent Directors. The Board believes that all of its Directors exercise due care and skill with respect to the matters which they consider and bring objective judgement to bear in decision making.

Committees

The Board of Directors, as part of its responsibility to oversee the strategic direction of the Company, has established guidelines and committees to ensure that its businesses operate ethically and fairly and to ensure that the assets of the Company are properly protected. The committees which the Board has established are as follows:

- Audit Committee
- Risk Management Committee
- Remuneration and Nomination Committee.

The Board, through the Remuneration and Nomination Committee, attempts to assess objectively its performance and that of its committees and individual members. The Board regularly undertakes performance reviews on an informal basis.

The requirement for membership of this committee is that the member must be able to make a contribution to this decision-making process. The Directors believe that the Board as a whole is best placed to determine the nomination and remuneration policies that are in the best interests of the Company.

For this reason all of the Directors of the Board are members of the Remuneration and Nomination Committee. Accordingly, this committee is not chaired by and does not comprise a majority of independent Directors. However, the Executive Directors are not directly involved in deciding their own remuneration.

Appointment of Directors

One of the roles and responsibilities of the Remuneration and Nomination Committee is to recommend to the Board the selection and appointment of suitable Directors to the Company.

The committee considers the size and composition of the Board and the selection and appointment of new Directors at each committee meeting based upon the existing expertise and experience of the Board, the future requirements of the Company

and the desirability of increasing diversity as a means of enhancing shareholder value.

The Board's objective is to achieve the mix of skills and diversity that is best suited to maximising long term shareholder value given the circumstances at any particular time. The Board believes that it is best placed to assess these requirements rather than using intermediaries.

The conditions relating to a Director's appointment are provided to the Director in writing prior to appointment. All Directors are subject to re-election by rotation in accordance with ARB's constitution. Shareholders are encouraged to participate in the re-election of Directors.

Directors may obtain independent professional advice, at the Company's expense, on matters arising in the course of their Board duties after obtaining the Chairman's approval, which cannot be unreasonably withheld.

The other information with respect to the structure of the Board noted in *Guide to reporting on Principle 2* has been provided in the Directors' Report as the Board believes this is a more appropriate place at which to disclose such information.

3. Ethical Business Practices

ARB is committed to being a socially responsible corporate citizen, using honest and fair business practices.

The Company does not have a formal Code of Conduct because the Company believes that a more effective means of enhancing investor confidence and actively promoting ethical and responsible decision-making is for the Board and the senior management team to foster, through their own actions, an ethical corporate culture.

Similarly, the Board believes that it has fostered and that the Company and its employees have a governance culture that encourages excellence and ethical business practices to enhance long term shareholder value, including the advancement of all employees in an ethical manner as appropriate irrespective of gender, age, ethnicity and cultural background.

Accordingly, the Board has not adopted a formal diversity policy or set measurable objectives based on diversity alone. The Board believes that this is consistent with its objective of generating long term shareholder value in an ethical manner.

The Board promotes open and honest disclosure and discussion, together with consideration and

respect for the interests of all legitimate stakeholders, at all Board and weekly management meetings.

In addition, the Board and the senior management of the Company regularly consider relevant matters including conflicts of interest, corporate opportunities, business practices, confidentiality, fair dealing, complaints handling, protection and proper use of the Company's assets, compliance with laws and regulations and reporting unlawful and unethical behaviour.

The Board has ultimate responsibility for resolving all matters concerning ethical and responsible decision-making.

These procedures are designed to ensure that the integrity of the Company is maintained and that investor confidence is enhanced.

The Board encourages non-executive Directors to own shares in the Company to further link their interests with the interests of all shareholders.

The Company is aware of its legal and other obligations to all legitimate stakeholders. The Board believes that appropriate recognition of these interests will enhance shareholder value in the long term.

The Board believes that the shareholders of the Company ultimately assess the performance of the Board, its committees, individual Directors and senior management based on the financial performance of the Company in the context of the commercial, legal and ethical framework within which the Company operates.

Directors' share trading

The Board of Directors has a formal policy for share dealing by Directors. This policy allows for the buying and selling of ARB shares only during the four-week periods following the annual and half yearly results announcements and the annual general meeting, unless approval is obtained from the Chairman to deal in the Company's shares outside these times.

4. Safeguard Integrity

ARB has an Audit Committee with a formal charter. The Audit Committee is composed of the three independent non-executive Directors of ARB and is chaired by one of those independent non-executive Directors.

The Board considers that the composition of the present Audit Committee maintains integrity and is

most operationally effective for a Company of ARB's size and Board composition.

The primary function of the Audit Committee is to recommend to the Board the selection and appointment of the external auditors, based on the audit requirements of the Company and the independence and suitability of the auditors. The Audit Committee also acts as an interface between the Board and the external auditors to:

- ensure that the external auditors who are selected and appointed remain appropriate to the needs of the Company
- review the independence of the external auditors
- ensure the rotation of external audit engagement partners in accordance with regulatory requirements
- review, with management and the auditors, the Company's periodic statutory accounts and reports
- review the systems and controls established by management to safeguard the assets of the Company
- monitor procedures in place aimed at ensuring compliance with the Corporations Act 2001 and the Australian Stock Exchange Listing Rules
- monitor the effective management of financial and other business risks.

The Audit Committee has reviewed the external auditor's independence and is satisfied that they are not restricted in forming an independent view on the Group's financial report.

The provision of non-audit services by the external auditors to the Group has been restricted by the Board to ensure audit independence.

The other information with respect to safeguarding the integrity of financial reporting noted in *Guide to reporting on Principle 4* has been provided in the Directors' Report.

5. Timely Disclosure of Material Matters

The Company's aim is to ensure timely, balanced and continuous disclosure to the market of all material matters concerning the Company in accordance with the ASX continuous disclosure regime.

The policies and procedures designed to ensure compliance with ASX Listing Rules and Corporations Act 2001 disclosure requirements and to ensure accountability at a senior management level for that compliance are as follows:

- the Company must notify the market, via the ASX continuous disclosure regime, of any price sensitive information
- the Directors and the Financial Controller/Company Secretary are designated as Disclosure Officers who are responsible for reviewing potential disclosures and deciding what information should be disclosed
- only a Disclosure Officer may authorise communication with external parties on behalf of the Company thereby safeguarding confidentiality of corporate information
- the onus is on all executives to inform a Disclosure Officer of all potential disclosures as soon as they become aware of the information. The senior management team is responsible for ensuring staff understand and comply with this policy
- ASX and media releases must be approved by a Director who is a Disclosure Officer.

6. Rights of Shareholders

The shareholders of ARB are responsible for voting on the election of Directors at the Annual General Meeting in accordance with the Company's constitution.

The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business for resolution by shareholders. ARB's policy is to encourage effective shareholder participation at general meetings.

ARB requests that a senior partner of the firm of auditors attends the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

ARB has a policy of effective communication with shareholders through:

- the Annual Report which is distributed to all shareholders
- disclosures made to the ASX
- letters to shareholders after half year and full year results announcements
- notices and explanatory memoranda in relation to resolutions to be put to a vote
- AGMs at which shareholders are given an opportunity to participate.

7. Risk Management

The Board has established a Risk Management Committee to oversee the management of business risks and internal control. This is a management committee composed of the Executive Directors and the Financial Controller/Company Secretary.

The Risk Management Committee identifies, assesses, monitors and manages business risks and internal control procedures by considering such matters as part of the regular weekly meetings of the senior management team of the Company.

Minutes of every management meeting are circulated to the Board which has the ultimate responsibility of ensuring that the risk mitigation actions recommended at these meetings are implemented.

8. Fair and Responsible Remuneration

ARB has established a Remuneration and Nomination Committee. As noted previously, all of the Directors are members of this committee which is chaired by the Chairman of the Company.

The primary function of the Remuneration and Nomination Committee is to review senior executive remuneration structures, review senior management succession plans and monitor Directors' remuneration levels.

The committee may engage appropriately qualified consultants to provide it with advice and recommendations.

The independent non-executive Directors are remunerated by way of fees and other than statutory superannuation, they do not receive any retirement benefits.

Additional information with respect to remuneration noted in *Guide to reporting on Principle 8* has been provided in the Directors' Report.