

## **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 Third Edition Corporate Governance Guidelines (the "Guidelines") of the ASX Corporate Governance Council as revised in 2014.

ASX Listing Rule 4.10.3 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.

This Corporate Governance Statement was approved by the Board on 15 August 2017 and is current as at that date.

### **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 and the departmental executives.

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

The fortnightly 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 are reviewed by 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 Managing Director evaluates the performance of the senior management team on an informal basis throughout the year and on a formal basis once per year. A performance evaluation was undertaken in the current reporting period.

The Company Secretary is presently a member of the Board to ensure direct accountability to the Board, through the Chairman.

There is a written agreement with each Director and Senior Executive setting out the terms of their employment.

The Board has not adopted a formal diversity policy or set measurable objectives based on diversity alone for the reasons explained in section 3 of this Corporate Governance Statement.

### **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 one Executive Director and five non-executive Directors (three of whom are 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 Chairman became a non-executive Director on 1 July 2016. Prior to this, the Chairman had been the Executive Chairman since the company listed on the ASX in 1987. The Board acknowledges the recommendation of the ASX Corporate Governance Council that this role be carried out by an independent 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.

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 independent 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, either directly or through the Remuneration and Nomination Committee, periodically and objectively assesses its performance and that of its committees and individual members. The Board and the Audit and Remuneration and Nomination Committees undertook formal performance evaluations during the 2017 reporting year. The Board also regularly undertakes performance reviews on an informal basis.

The requirement for membership of the Remuneration and Nomination Committee is that the member must be a non-executive Director and able to make a contribution to this decision-making process. This committee is composed of three independent non-executive Directors of ARB and is chaired by one of these independent non-executive Directors.

The committee's Charter is disclosed in the Investor Relations section of the Company's web site (<http://www.arb.com.au/about/investor-relations/>).

### **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 after undertaking appropriate checks.

The committee considers the size and composition of the Board and the selection and appointment of new Directors as required 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 the Remuneration and Nomination Committee 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. The Board provides shareholders with the necessary information in order to make an informed decision prior to the election of Directors.

### **Board Skills Matrix**

The Board has identified the skills required of the members of the Board, which are:

- management experience
- business experience, particularly in international sales and distribution
- financial management
- risk management
- corporate governance
- corporate finance
- legal knowledge
- automotive and/or four-wheel drive industry experience
- manufacturing experience
- engineering experience
- director experience
- ability to think strategically
- high level of business acumen and integrity.

The skills matrix is subject to periodic review. The Board is satisfied that, as a group, the current Directors meet the requirements of this skills matrix. Further information with respect to the Board is provided in the Directors' Report in the Company's Annual Report.

The Company provides appropriate induction as and when required for new Directors as well as appropriate opportunities for professional

development (which is undertaken individually by the Directors) of the skills and knowledge of Directors as assessed by the Remuneration and Nomination Committee.

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.

### 3. Ethical Business Practices

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

The Company has a Code of Conduct which applies to everyone who works for ARB and its subsidiaries including employees, consultants and directors. The Code is disclosed at <http://www.arb.com.au/about/policy/>.

The Company also believes that an 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 proportion of women employed by the consolidated entity in the following roles is as follows:

- Board 0%
- Senior executives 22%
- Consolidated entity 16%

Senior executives are general managers of key business departments. The Board promotes open and honest disclosure and discussion, together with consideration and respect for the interests of all stakeholders, at all Board and fortnightly 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 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 after approval has been obtained from the Chairman with such approval only to be given in blackout periods in exceptional circumstances and when the market is fully informed.

### 4. Safeguard Integrity

ARB has an Audit Committee with a formal charter that is available on the Company's web site (<http://www.arb.com.au/about/investor-relations/>).

The Audit Committee is composed of three independent non-executive Directors of ARB and is chaired by one of these 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 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.

Further information with respect to the Audit Committee is provided in the Directors' Report in the Company's Annual Report.

Prior to approving the financial statements, the Board received a declaration from the Managing Director and Chief Financial Officer that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## 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 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, the Company Secretary and the Chief Financial Officer 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 facilitate and encourage effective shareholder participation at general meetings through clear and succinct notices of meeting and explanatory notes, taking time to explain the Company's future direction and strategy and through direct interaction during question times at each meeting.

ARB requires that the audit 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.

The Company's investor relations programme creates effective two-way 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
- analyst briefings and presentations as appropriate
- the Company's web site: (<http://www.arb.com.au/about/investor-relations/>)

The Company provides security holders with the option of receiving communications from, and sending communications to, the Company and its share registry electronically.

## 7. Risk Management

The Board has established a Risk Management Committee to oversee the management of business risks and internal control. This committee is chaired by a non-executive Director (who is also the Company Secretary) and also includes the Chairman, the Managing Director and the Chief Financial Officer (rather than a committee as outlined in Recommendation 7.1(a) of the Guidelines).

The Risk Management Committee identifies, assesses, monitors and manages business risks and internal control procedures by considering such matters as part of the regular fortnightly meetings of the senior management team of the Company. A Risk Register is maintained and reviewed by the Board at each Board meeting.

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.

The Board reviews the risk management framework of the Company annually and it undertook such an evaluation in the current reporting year.

The Company does not have an internal audit function. Instead, the fortnightly management reports of the senior management team of the Company, including the Risk Management Committee, are circulated to all Board members for them to evaluate and continually improve the effectiveness of the risk management framework and internal control processes.

ARB has identified certain risks that could materially impact the Company's performance and prospects and has implemented measures to manage those risks, as summarised below:

- **Economic risk:** ARB is exposed to general risks posed by the Australian and international economies, which may cause general or local downturns in consumer confidence and demand and in the automotive industry in particular. Strategies employed to manage these risks include the use of multiple facilities for manufacturing, distribution and sales.
- **Foreign exchange risk:** ARB is exposed to foreign exchange rate influences in its dealings with a number of countries. This risk is managed through hedging arrangements as required and by operating in different currency environments.
- **Business continuity risk:** ARB faces business continuity risks which may include: a natural disaster affecting one or more sites;

major outage of services (eg electricity); a raw material shortage; prolonged failure of a supplier to supply a critical component. This risk is managed through businesses spread across multiple sites to mitigate site specific risks; site specific Emergency Response Plans and appropriate policies of insurance.

- **Key personnel:** Finding and retaining the right employees is important to ARB's ongoing success. ARB has appropriate succession planning strategies and career development plans in place to manage this risk.
- **Regulatory:** Regulatory burdens and changes to regulatory requirements may adversely impact ARB's competitiveness. ARB addresses this risk through its globally diversified facilities and being at the forefront of relevant industry technology to meet changing regulatory requirements more effectively.

The Company does not face any material exposure to risks that would compromise its ability to continue operating in a socially and environmentally sustainable way.

## 8. Fair and Responsible Remuneration

ARB has established a Remuneration and Nomination Committee. This Committee is composed of three independent non-executive members of the Board. The Chairman of the Committee is appointed by the Board and is one of the independent non-executive Directors.

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 committee's Charter is disclosed in the Investor Relations section of the Company's web site (<http://www.arb.com.au/about/investor-relations/>).

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, including separate disclosure of policies and practices regarding the remuneration of non-executive Directors and the remuneration of the Executive Director and other senior management, is provided in the Remuneration Report in the Company's Annual Report.