



## CORPORATE GOVERNANCE STATEMENT

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This statement summarises our key corporate governance practices. It is current as at 21 February 2018 and has been approved by the board. We followed all recommendations of the ASX Corporate Governance Council throughout 2017 ("year under review") except as referred to below.

### **Principle 1**      **Lay solid foundations for management and oversight**

#### Roles of Board and Management

We have a dynamic board which has developed and implemented policies and practices, over many years, designed to promote a culture of good corporate governance.

The board's role and responsibilities are detailed in our board charter, which is available on our Corporate Governance webpage located at <http://www.apeagers.com.au/shareholders/corporate-governance/>.

The board has primary responsibility to shareholders for the welfare of the Company by guiding and monitoring its business and affairs. The board must at all times act honestly, fairly and diligently in accordance with applicable laws and policies. Each Director must act in the best interests of the Company as a whole.

Under the charter, the board's key responsibilities include to:

- develop and review the Company's strategic direction.
- set the risk appetite within which management is expected to operate.
- ensure that effective audit, risk management and compliance systems are in place.
- oversee management's implementation of the Company's strategic objectives and performance generally.
- appoint (and, if appropriate, remove), appraise and determine the remuneration of the Chief Executive Officer.
- oversee the integrity of the Company's accounting and corporate reporting systems.
- approve the Company's financial statements and monitor the financial results.
- approve:
  - the operating budget and major capital expenditure.
  - the acquisition or disposal of significant assets.
  - the issue of any shares or other securities.
  - the Company's remuneration framework.
- oversee the Company's process for making timely and balanced disclosures.
- delegate powers to the Chief Executive Officer for day-to-day business.

The charter also provides that the Chief Executive Officer is responsible for:

- implementing the strategic objectives and carrying on day-to-day business.
- in consultation with the Board, reviewing the performance and reward framework of other senior management.
- providing the Board with accurate, timely and clear information.

#### Agreements with Directors and Senior Executives

A letter of appointment sets out the terms of appointment for each non-executive Director appointed since 2007. It was not standard practice to issue letters of appointment for Directors prior to 2007. A written employment agreement is also in place with the Chief Executive Officer and other senior executives setting out their employment terms. This ensures a clear understanding of their respective roles and responsibilities and of the Company's expectations.

#### Board Evaluation

Under the board charter, the Chairman is responsible for ensuring that board meetings are conducted competently and ethically and that Directors individually and as a group have opportunities to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the board and Company. In this context, the Chairman undertakes a continuous review of the performance and contribution of individual Directors, whilst the board, as a whole, conducts an ongoing self-assessment of its

collective performance and assessment of its committee and of the Chairman. This process was followed during the year under review and has assisted the Board to operate efficiently and effectively over many years.

### Executive Evaluation

The board (excluding the Chief Executive Officer) undertakes a continuous review of the Chief Executive Officer's performance. Whilst the Chief Executive Officer in consultation with the Chairman reviews the performance of other senior executives on an ongoing basis. This process was followed during the reporting period.

### Company Secretary

The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the board. Each director is able to communicate directly with the Company Secretary and vice versa.

### Diversity

We recognise the inherent benefits in having a diverse workforce and value the differences between people and the contribution these differences can make to our business. To encourage and foster the move towards a more diverse work force is not only the right thing to do, it also makes good business sense. It provides opportunity to attract and retain the most talented and engaged people whose diversity reflects the communities in which we operate. We believe this helps to encourage greater innovation within our business.

In order to achieve optimum diversity in our workforce, it is essential that recruitment, selection, training, promotion and career management decisions are based on merit and are non-discriminatory. Our managers are charged with responsibility for ensuring employees are treated fairly and with respect and dignity.

Within our policy of appointing or promoting the best person for the job on a non-discriminatory basis, we endorse the objectives of equal opportunity so that all candidates are given equal consideration.

These principles are reflected in our Diversity Policy which is available on our Corporate Governance webpage.

In accordance with our diversity policy, the board has set the following measurable objectives for achieving gender diversity and these are assessed annually:

- *Establishment of a Female Employee Network to support the professional development of women and discuss how more women might be attracted into our workforce.*

This network has been established and includes members of the alumni of our dedicated development program for high potential women – Accelerate. The network group makes recommendations for discussion with senior management and action as appropriate, including initiatives such as: the use of employment advertisements that expressly encourage women to apply; paid maternity leave exceeding the statutory minimum; and an increased use of female interviewers for employment interviews. In 2017, the network hosted three significant events around Australia promoting careers for women within the Company.

- *Review of payroll system to determine whether there is equity in pay for men and women doing similar roles in similar circumstances.*

This annual review has concluded that equity in pay does exist in our group. The issue of equity in pay continues to be reviewed on an annual basis to ensure that all employee remuneration packages are based on skillset and merit.

- *Provision of diversity training for managers.*

This diversity training for managers is ongoing across the group. In addition to raising the awareness of our commitment to our diversity policy, the training assists managers to identify how they can positively influence workplace diversity within their businesses.

- *Demonstrate our commitment to the diversity policy by widely communicating its content and these objectives.*

Our diversity policy and objectives are covered in the diversity training program for managers and have been discussed with management teams during the year. The diversity policy is also included

in the Information and Policy Manual given to all employees on their commencement with us. This helps to establish expectations required of employees in their dealings with each other and others. In addition, the diversity policy is available on our intranet and internet sites for all employees.

To assist with these measurable objectives and improve gender diversity in our workforce, we are undertaking various additional initiatives, including:

- *Accelerate Program* – This important gender diversity initiative, called the Accelerate Program, has been ongoing since early 2015. To facilitate the program we partnered with InKling Women, an organisation with specific experience and expertise in delivering leadership and development programs for women. We created the Accelerate Program to:
  - assist our leadership team in developing solutions that will help attract and retain more female employees and improve our training and mentoring programs for them.
  - assist in developing a group of high-potential female employees with the confidence and capability to move into more senior roles over time while also assisting the Company identify and remove any barriers to the creation of a more diverse workforce.
- *Diversity Survey* – The gender diversity component of our annual employee survey allows employees to confidentially provide senior management with their perspective on our approach to diversity. This helps to improve our understanding of barriers that employees may be facing within our organisation.

Our most recent “Gender Equality Indicators” are available on our Corporate Governance webpage in accordance with the Workplace Gender Equality Act.

## **Principle 2**      **Structure the board to add value**

### Independence

Our board consists of seven Directors, including five non-executive Directors. The Chief Executive Officer, Mr Ward, and the Chief Financial Officer, Ms Sophie Moore, are the only executive Directors.

Two Directors are regarded as being independent - Mr Crommelin (Chairman) and Mr Cowper. The board believes them to be free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect their capacity to bring an independent judgement to bear on issues before the board and act in the best interests of the Company and its shareholders generally.

Mr Crommelin is Chairman of Morgans Holdings (Australia) Limited and brings extensive knowledge and expertise to our board in areas such as corporate finance, risk management and acquisitions. Our board considers that the relationship between the Company and Morgans is not material to Mr Crommelin’s independence and that his role with Morgans does not interfere with his capacity to bring independent judgement to bear on issues affecting the Company. Morgans does not provide any corporate advisory services to the Company and we have not paid any fee to Morgans for advisory services for at least four years.

Mr Cowper brings a wealth of industry knowledge to the board, having previously specialised in providing audit, financial and taxation services to companies in the motor industry, chaired the motor industry specialisation unit of Horwath Chartered Accountants for six years and been the Company’s lead audit partner for seven years while at Horwath and Deloitte Touche Tohmatsu until 2008.

In addition to the independent Directors, the board derives significant benefit from the expertise and experience of Mr Politis, Mr Ryan and Mr Birrell. Mr Politis has vast automotive retail industry experience and is a Director and controlling shareholder of the Company’s largest shareholder, WFM Motors Pty Ltd. Mr Ryan has significant management experience in the automotive retail and other industries and is a Director and Chief Executive Officer of WFM Motors Pty Ltd. Mr Birrell has led a distinguished career in the automotive industry, including 38 years at manufacturer, financier and retail level and 21 years as Executive Chairman of Birrell Motors Group.

This combination of Directors provides appropriate balance on the board given the Company’s size and operational requirements and notwithstanding that a majority of Directors are not regarded as independent.

Details of each Director’s term in office, qualifications, professional skills, experience, expertise and responsibilities are set out in our Directors’ Report.

## Nomination Committee

The board as a whole acts as a nomination committee. Given the size of the board and the expertise and other attributes of Directors, this is believed to be an efficient and effective mechanism to bring the focus and judgement needed to address succession and board composition issues, rather than having a separate Nomination Committee.

When board vacancies arise the board will identify potential candidates with a view to ensuring it will have an appropriate balance of qualities so it may continue to discharge its duties and responsibilities effectively for the benefit of all shareholders. These qualities are described in the Skills Matrix referred to below.

Potential candidates require a disposition enabling them to offer and resolve differing views and ask discerning questions of management and Directors. They are made aware of the time commitments on our board members and appropriate due diligence checks are undertaken before any new member is appointed. Appointments are made on a non-discriminatory basis.

## Skills Matrix

It is important that the Board has a diverse range of qualities enabling Directors individually and collectively to effectively challenge management, provide strategic input and discharge their obligations and responsibilities.

The board is satisfied its current members have an appropriate mix of skills, knowledge, expertise, experience and other qualities, including:

- industry and operational (including automotive retail, finance and insurance, real estate, capital markets, mergers and acquisitions).
- executive management, listed company directorships and chairmanship.
- commercial acumen (including business management, business development, innovation and strategy).
- professional skills (including accounting, audit, finance, risk management and regulatory compliance).
- interpersonal qualities (including integrity, standing in the market, ability to identify and communicate ideas and issues, and the degree to which one's skill set complements the skill sets of other board members).
- geographic diversity (including the main regions in which we operate).
- independence.

Importantly, these qualities enable us to pursue the three pillars of our corporate strategy (ie. *business optimisation, growth by selective acquisition and development of proprietary brands via innovation and complementary services*).

To complement the Skills Matrix, Directors are also entitled to obtain independent professional advice to assist in the proper discharge of their duties, at the Company's expense with the Chairman's prior approval.

## Inductions and Professional Development

New Directors are provided an induction program aimed at broadening their understanding of the Company, as appropriate, including site visits and meeting key management. This allows them to participate fully and effectively in board decision-making at the earliest opportunity.

Directors are also given professional development opportunities to maintain and develop the skills and knowledge needed to perform their roles effectively, and site visits are available periodically to maintain familiarity with our operating environment.

## **Principle 3 Act ethically and responsibly**

Our Whistleblower & Ethics Policy is our code of conduct. It is promoted within the Company as a meaningful statement of our core values and is supported by a range of other policies and procedures, including our Compliance, Behaviour Management, Discrimination, Sexual Harassment & Workplace Bullying, Diversity,

Affirmative Action, Grievance & Complaint, and Disciplinary Policies. These are all incorporated into an Information and Policy Manual which governs the conduct of all employees and Directors, and is available on our intranet. A printed copy is given to all new employees and Directors.

This policy framework clearly articulates acceptable business practices. It helps to foster a culture of compliance and maintain investor and employee confidence in the integrity of the Company. It expresses our commitment to a culture of honesty and integrity, recognises the need to observe the highest standards of behaviour and ethics, and promotes and encourages:

- ethical and responsible decision-making.
- compliance with legal obligations.
- putting the interests of the Company ahead of personal gain.
- reporting of suspected violations of laws and unethical business practices.
- the fair, prompt and confidential consideration of any complaints.

#### **Principle 4**      **Safeguard integrity in corporate reporting**

##### Audit, Risk & Remuneration Committee

Our Audit, Risk & Remuneration Committee during 2017 was comprised of Mr Cowper (Committee Chairman), Mr Crommelin, Mr Henley (until his retirement in February 2017) and Mr Birrell (from March 2017). Committee members' qualifications, experience and attendance at committee meetings are detailed in our Directors' Report.

The Chairman may invite any member of management, the external or internal auditor or any other person to attend committee meetings. The committee may also meet with any person without management in attendance.

As set out in the committee charter (which is available on our Corporate Governance webpage), the committee reviews and makes recommendations to the board in relation to:

- Accounting Practices and Tax - annual and half yearly financial reports, significant accounting policy changes, the adequacy and effectiveness of reporting and accounting controls and practices and material taxation matters.
- External Audit - the external auditor's appointment, fees, audit plan, performance, independence and management letters.
- Internal Audit - the internal audit charter, plan, reports and independence, and any restrictions on the auditor.
- Risk Management - the adequacy and effectiveness of risk management and internal control systems and the standard of corporate conduct in arms-length dealings and likely conflicts of interest.
- Remuneration matters.

The committee provides an efficient mechanism for bringing focus and independent judgement in overseeing these matters, whilst the full board retains ultimate responsibility for them.

##### CEO & CFO Declaration

Before the board approves the half yearly and annual financial statements, the Chief Executive Officer and Chief Financial Officer provide a declaration that in their opinion, formed on the basis of a sound system of risk management and internal control:

- our financial records have been properly maintained.
- our financial statements comply with the accounting standards and give a true and fair view of our financial position and performance.

## Auditor Attends AGM

Our external auditor attends our annual general meeting to answer shareholder questions. This is an important safeguard for the integrity of our corporate reporting process.

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

We understand and respect that prompt disclosure of price-sensitive information is central to the efficient operation of the ASX securities market.

Our policy for complying with continuous disclosure obligations under the ASX listing rules is available on our Corporate Governance webpage. The Company Secretary oversees disclosure to the ASX.

To further reinforce the importance of our disclosure obligations, the board considers continuous disclosure obligations and share transactions by Directors as standing agenda items at scheduled board meetings. Directors have also entered into agreements with the Company requiring that they provide all information necessary to enable the Company to comply with its disclosure obligations.

### **Principle 6**      **Respect the rights of security holders**

We are committed to effective communication with investors as a means of providing a greater understanding of our business, governance, financial performance and prospects.

Detailed information about our Company and governance is included on our website, including our Investor Relations Policy which is on our Corporate Governance webpage. This policy details arrangements designed to facilitate effective two-way communications with investors and encourage participation at shareholder meetings and confirms that shareholders may communicate with us and our share registry electronically.

### **Principle 7**      **Recognise and manage risk**

#### Risk Management Framework

We place a high priority on the identification of material risks and opportunities. By understanding and managing risk, greater certainty and confidence can be provided to shareholders, employees, customers, franchise partners and other stakeholders.

Our Risk Management Policy is available on our Corporate Governance webpage. In accordance with the policy, the board is responsible for:

- overseeing our risk management function.
- ensuring a sound system of risk oversight, management and internal control is in place.
- ensuring material business risks are effectively managed.
- monitoring and reporting on any material changes to our risk profile.

Within this framework, the Chief Financial Officer (assisted by internal audit) is responsible for the establishment, implementation and maintenance of our risk management system. The system includes a group risk register methodology within which material business risks are identified and prioritised so they may be managed appropriately.

Management reports to the Audit, Risk & Remuneration Committee on the effectiveness of our risk management system and is satisfied that it enables material risks to be appropriately identified, prioritised, monitored and managed.

The committee monitors, assesses and reports to the board on the effectiveness of the risk management system. The framework is reviewed by the committee at least annually to check that it remains sound, and such a review has taken place during the year under review.

These controls are intended to assist in managing risk at acceptable levels taking into account our objectives, business model, industry, market environment, ownership structure and risk appetite set by the board.

## Sustainability Risks

We believe the Company does not face any material exposure to environmental sustainability risks. We have developed the following mitigation strategies for addressing material economic and social sustainability risks inherent in the automotive retail industry:

- Changing customer trends/retail disruption – Mitigate through business model diversification, developing proprietary non-franchise businesses, developing online offerings and other innovations to traditional business model, employing high calibre operators, employee training, monitoring evolving consumer trends so we can plan accordingly.
- Legislative changes – Mitigate through high-level industry representation, appropriate corporate structures, business model diversification, developing proprietary non-franchise businesses, developing online offerings and other innovations to traditional business model, legal and compliance framework and monitoring developments.
- Downturn in general economic activity or individual brands – Mitigate through franchise business model, individual business departments providing a natural hedge against each other (ie. service/parts and sales), brand and geographic diversification, growing the size and scale of our business, maintaining significant property ownership, business planning, monitoring the macroeconomic environment so we can plan accordingly.
- Exposure to changes in property markets - Mitigate through geographic diversification, property portfolio management, monitoring of property assets and markets so we can plan accordingly, and considering whether to own or lease key properties on site-by-site basis.
- Cyber risk – Mitigate through improved alignment of IT security, operations and senior management, employment of high calibre IT managers, updated policies and procedures, employee training and education, and improved awareness and practices
- Workplace health and safety – Mitigate through employee consultation, training and education, safety officers, updated policies and procedures, and improved awareness and practices.
- Payroll - Mitigate through centralised systems and oversight of key payroll functions, employment of high calibre managers, implementation of automated time and attendance system, standardised employment contracts and updated policies, improved IT security measures.

These risks are monitored, assessed and prioritised through our risk management framework, as described above.

## Internal Audit

The board has established our internal audit function as a key component of our governance framework. The internal audit function includes a team of internal auditors who operate independently of, but in consultation with, the external auditor.

Internal audit brings a systematic, disciplined approach to evaluating and continually improving the effectiveness of our risk management and internal control processes. It is an independent and objective review and advisory service which provides assurance to the board that our financial, operational and other controls are designed and working effectively to manage key risks and achieve objectives in an efficient, effective and ethical manner. This service also helps management to improve business performance.

Independence is essential to the effectiveness of the internal audit function. A direct reporting line to the Audit, Risk & Remuneration Committee and direct access to the Board Chairman, Committee Chairman and Chief Executive Officer assist internal audit to maintain its independence and objectivity.

In conducting its activities, internal audit plays an active role in:

- developing and maintaining a culture of accountability and integrity.
- facilitating the integration of risk management into day-to-day business activities and processes.
- promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

**Principle 8**      **Remunerate fairly and responsibly**

As referred to above, whilst the board retains ultimate responsibility for approving our remuneration framework, the Audit, Risk & Remuneration Committee provides an efficient mechanism for bringing focus and independent judgement to remuneration matters.

Full details of the remuneration arrangements of our Directors and senior executives are set out in our Remuneration Report. This shows a clear distinction between the remuneration structure of non-executive Directors' and that of the Chief Executive Officer and other senior executives.