

adairs

CORPORATE
GOVERNANCE
STATEMENT

2015

Corporate Governance Statement

This is the Company's first corporate governance statement since it was admitted to the official list of ASX Limited on 17 June 2015 (Listing). It sets out the key features of Adairs' governance framework and reports against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council (ASX Principles and Recommendations).

The Board is committed to maximizing performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Adairs. In conducting business with these objectives, the Board seeks to ensure Adairs is properly managed to protect and enhance Shareholder interests, and that Adairs, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing Adairs, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Adairs' business and which are designed to promote the responsible management and conduct of Adairs.

All relevant committees came into existence on the 28th May 2015.

Please refer to page 16 of the Adairs Annual report for the Table of meetings of the various committee meetings.

Principle 1

Lay solid foundations for management and oversight

The Board has adopted a Charter which sets out the Board's role and responsibilities, the relationship and interaction between the Board and management and the authority delegated by the Board to management and Board committees.

The Board is responsible for the overall governance of Adairs including monitoring the operational and financial position and performance of Adairs and overseeing its business strategy, including approving the strategic objectives, plans and budgets of the Company. The Board delegates to the CEO and senior management matters involving the implementation of corporate strategy and management of Adairs' day-to-day activities.

The Board's key responsibilities as set out in the Board Charter include:

- selecting, appointing, removing and evaluating from time to time the performance of, determining the remuneration of, and planning succession of, the CEO;
- contributing to and approving management's development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- conducting performance evaluations of the Board, its Committees and individual Directors; and
- developing and reviewing corporate governance principles and policies.

Board and Committee Charters and the Company's Constitution are available on Adairs' website.

The Board has established a Remuneration Committee Charter which is responsible for the annual review of the remuneration arrangements of the executive directors, chairman and non-executive directors to ensure they remain equitable and assess performance processes to ensure capability of management to realise the business strategy.

The Board has adopted a diversity policy which aims to, among other matters, address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure. As at 30 June 2015, 25% of our non-executive directors, 22% of senior executive positions and 87% of senior management positions are held by women. The Board will set measurable objectives with a view to progressing towards a balanced representation of women at a Board and senior management level. Performance against these objectives will be reviewed annually by the Nomination Committee, as part of its annual review of the effectiveness of this Policy.

Principle 2

Structure the Board to add value

The Board has established a Nomination Committee comprising all Directors and is chaired by Michael Butler. The Nomination Committee is responsible for identifying qualified individuals for appointment to the Board. In identifying candidates, the Nomination Committee will have regard to the selection criteria set out in the Board appointment process (refer Nomination Committee Charter), which will include:

- skills, expertise and background that add to and complement the range of skills, expertise and background of the existing Directors;
- diversity; and
- the extent to which the candidate would fill a present need on the Board.

The Nomination Committee is also responsible for ensuring an effective Director induction process is in place (and continues to be effective) and for providing appropriate professional development opportunities for Directors. The Nomination Committee will assist the Board as required in relation to the ongoing performance evaluation of the Board, its committees and individual Directors with this process commencing during the 2016 year.

The Board is satisfied the Board currently comprises Directors with a broad range of skills, knowledge, experience and has a proper understanding of the current and emerging issues facing the Company and can effectively review and challenge management's decisions.

The skills, experience and expertise of each Director, including current and former directorships, are set out in more detail in the biographies on pages [14-15] of the Annual Report.

The Board should comprise a majority of independent Non-executive Directors and the Board has adopted guidelines, as set out in the Board Charter, which are used to guide independence assessments based on the definition of independence listed in Box 2.3 of the ASX Principles and Recommendations.

Having regard to these criteria, the Board considers Michael Butler, Kate Spargo and David Briskin are free from any business or any other relationship that could materially interfere with the independent exercise of their judgement and are able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

The Board considers Trent Peterson, David MacLean and Michael Cherubino are not independent on the basis that:

- Trent Peterson is a director of Catalyst Investment Managers (Catalyst), a substantial shareholder in the Company.
- David MacLean is the CEO of the Company and Michael Cherubino is the CFO of the Company.

While the Board does not currently comprise a majority of independent Directors, the Company is satisfied the Board operates independently of management and is highly effective in promoting the best interests of shareholders as a whole. In particular, the Board considers Trent Peterson, David MacLean and Michael Cherubino add significant value to the Board given their considerable experience and skills and bring objective and independent judgment to the Board's deliberations.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chairman or the Board as a whole. The Company Secretary, who is accountable to the Board through the Chairman, provides advice and support to the Board and is responsible for all matters to do with the proper functioning of the Board.

Principle 3

Act ethically and responsibly

The Board recognises the need to observe the highest standards of ethics, integrity and behaviour. Accordingly, the Board has adopted a formal Code of Conduct which outlines how the Company expects its employees and Directors to behave during the course of their employment in dealing with internal and external clients and customers of the business.

The Code of Conduct requires (amongst other things) employees and Directors to:

- comply with all Company policies, procedures, rules and regulations;
- be honest and fair in dealings with customers, clients, co-workers, Company management and the general public;
- maintain the confidentiality of any information, records or other materials acquired during the course of employment with Adairs; and
- respect Adairs' ownership of resources and property.

Adairs also has an 'Issue Resolution & Complaint Procedures' that contains procedures for employees and Directors to report any situations or behaviours that breach or potentially breach the Code of Conduct.

Adairs' Code of Conduct is available on Adairs' website.

Principle 4

Safeguard integrity in corporate reporting

Under the Audit and Risk Committee Charter, the Committee should consist of:

- at least three members of the Board;
- only Non-executive Directors;
- a majority of independent Directors; and
- an independent chair who is not Chairman of the Board.

The current members of the Audit and Risk Committee are:

- Kate Spargo (chair);
- Trent Peterson; and
- Michael Butler.

The Audit and Risk Committee assists the Board in carrying out its accounting, auditing and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

Non-Committee members, including members of management and the external auditor, may attend meetings of the Committee by invitation of the Committee chair. Minutes of meetings of the Committee are kept by the Company Secretary and, after approval by the Committee chair, are presented at the next Board meeting.

The Committee has rights of access to management and auditors (external and internal) without management present, and rights to seek explanations and additional information from both management and auditors.

Adairs' external auditor is Ernst & Young who will be requested to attend the company's Annual General Meeting to answer any questions from shareholders. The Audit and Risk Committee provides a link between the external auditor, the Board and management. It also has the responsibility (subject to Corporations Act requirements) for the appointment and remuneration of the external auditor, as well as for evaluating its effectiveness and independence.

The Board has approved a policy on non-audit services provided by the external auditor which clearly sets out the type of non-audit services which are prohibited because they would create a real or perceived threat to the independence of the external auditor.

The Board requires the CEO and CFO provide written assurance the financial reports give a true and fair view, in all material respects, of the group's financial position and of their financial performance and are in accordance with Australian Accounting Standards.

Principle 5

Make timely and balanced disclosure

Adairs is committed to complying with its disclosure obligations under the Corporations Act and the ASX Listing Rules to keep the market reasonably informed of information which may have a material effect on the price or value of Adairs' securities.

The Company adopted a Continuous Disclosure Policy on Listing which established procedures aimed at ensuring the Company fulfills its obligations in relation to the timely disclosure of material price-sensitive information.

Adairs' Continuous Disclosure Policy is available on Adairs' website.

Principle 6

Respect the rights of security holders

Adairs aims to communicate all important information relating to the Company to its shareholders. Additionally, the Company recognises potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

To achieve this, the Company communicates information regularly to Shareholders and other stakeholders through a range of forums and publications, including:

- **Adairs website:** important information about Adairs can be found under the section marked 'Corporate Governance' in the investors section on its website. The website also contains a facility for shareholders to direct inquiries to Adairs.
- **Annual general meeting:** the Company will encourage full participation of shareholders at its AGM and for those shareholders who are unable to attend in person, shareholders will be able to lodge proxies. The Company's external auditor will attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
- **Annual Report:** Adairs' Annual Report will be available on the website and contains important information about the Company's activities and results for the previous financial year.
- **ASX announcements:** all ASX announcements, including annual and half year financial results, are posted on the Company's website as soon as they have been released by ASX.
- **Investor relations:** to encourage two-way communication, Adairs provides a telephone helpline facility and an online email inquiry service to assist shareholders with any queries. Information is also communicated to shareholders via periodic mail outs, or by email to shareholders who have provided their email address.

Adairs' Continuous Disclosure Policy is available on Adairs' website.

Principle 7

Recognise and manage risk

The Board has established an Audit and Risk Committee comprising of three members, Kate Spargo (chair), Trent Peterson and Michael Butler. The Audit and Risk Committee has the responsibility and authority for the appointment of the head of internal audit. The head of the internal audit has a direct reporting line to the Chair of the Committee and, therefore, to the Board.

The Committee has developed systems for evaluating and improving the effectiveness of the Company's risk management and internal control processes.

The Committee's specific functions with respect to risk management and compliance are to review and report to the Board that:

- the Committee has, at least annually, reviewed the Company's risk management framework to satisfy itself that it continues to be sound and effectively identifies all areas of potential risk
- adequate policies and processes have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies;
- proper remedial action is undertaken to redress areas of weakness.

The Committee will also review management recommendations on policies and strategies relating to employee culture and behaviour and make recommendations to the Board where appropriate. This includes policies and recommendations on bullying and harassment.

Refer to the pages [12-13] of the annual report for Adairs business Risks.

Principle 8

Remunerate fairly and responsibly

The Board has established a Remuneration Committee comprising of four members, Trent Peterson (chair), Michael Butler, Kate Spargo and David Briskin. The responsibilities of the committee are outlined in our Remuneration Committee Charter.

The Company's remuneration strategy for Non-executive Directors is designed to attract and retain experienced, qualified Non-executive Directors and to remunerate appropriately to reflect the demands which are made on them and the responsibilities of the position.

The level of fees are reviewed annually by the Remuneration Committee, and are based on the fees paid for comparative Non-executive Director roles in similarly sized publicly listed companies operating in the retail industry.

Non-executive Directors do not receive any variable or "at-risk" remuneration or other performance related incentives.

The principles that guide Adairs' executive remuneration policy are:

- to provide competitive total remuneration arrangements that enable the Company to attract and retain high performing leaders and to reward them for their contribution to the success of the Company;
- to align remuneration arrangements with the delivery of the outcomes which (in the opinion of the Board) drive sustainable value creation for the Company's shareholders;
- to maintain a pay for performance environment for executives through linking incentive pay opportunities to the achievement of specific, measurable business goals;
- to position base salaries at competitive levels, subject to individual performance;
- to provide arrangements with the flexibility to recognise individuals based on consistent performance, experience and qualifications; and
- to provide equitable pay arrangements across the Company.

These principles seek to ensure the level and composition of remuneration is appropriate, and also that there is a clear link between pay and performance.

Further information relating to the remuneration of the Non-executive Directors and senior executives is set out in the Remuneration Report on page [18] of the annual report.