

The Board is responsible for the overall corporate governance of McGrath Limited (**Company**) and its related entities (**McGrath**), including adopting appropriate policies and procedures designed to ensure that McGrath is properly managed to protect and enhance Shareholder interests.

The Board monitors the operational and financial position and performance of McGrath and oversees its business strategy, including approving the strategic goals of McGrath and considering and approving a business plan and annual budget. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of McGrath.

In conducting business with these objectives, the Board seeks to ensure that McGrath is properly managed to protect and enhance Shareholder interests, and that McGrath, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing McGrath, including adopting relevant internal controls, risk management processes and corporate governance policies and practices, which it believes are appropriate for McGrath's business and that are designed to promote the responsible management and conduct of McGrath.

Since being admitted to the Official List of ASX Limited on 7 December 2015, the Board has from time to time considered and reviewed its corporate governance practices to ensure that they remain relevant to the current operations of McGrath. A more comprehensive review of McGrath's policies is planned for the end of 2016, after McGrath has been operating as an ASX listed company for a full year.

Details of McGrath's key policies and the charters for the Board and each of its Committees are available on McGrath's website under 'About Us' / Investor Centre' at www.mcgrath.com.au/about/investorcentre.

This Corporate Governance Statement:

- reports against the 3rd edition of the *ASX Corporate Governance Council's Principles and Recommendations (ASX Principles)* and the practices detailed in this Corporate Governance Statement are current as at 24 August 2016; and
- has been approved by the Board and is available on McGrath's website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Principle 1: The Board lays solid foundations for management and oversight

Role and responsibilities of the Board and Management

The Board is responsible for the overall direction of McGrath with oversight and review of the management, administration and overall governance of McGrath.

The *Board Charter* provides a framework for the effective operation of the Board, which sets out the:

- Board's composition and process;
- Board's role and responsibilities;
- relationship and interaction between the Board and Management; and
- authority delegated by the Board to Management and Board committees.

The Board's role is to, among other things:

- represent and serve the interests of Shareholders by overseeing and appraising McGrath's strategies, policies and performance;
- ensure that an appropriate corporate governance framework is established and operating that can add to the performance of McGrath, create Shareholder value and engender the confidence of the investment market. To accomplish this, the Board provides guidance and oversight in critical areas:
 - Strategic Direction:

- considers and approves the strategy of McGrath and monitors its implementation; and
 - approves major investments and monitors the returns achieved.
- Financial Oversight
 - reviews and adopts an annual budget;
 - monitors financial performance; and
 - approves the annual and half year financial statements and reports on the advice of the Audit and Risk Committee.
- Risk Management and Internal Controls
 - approves McGrath's risk management approach;
 - reviews and monitors significant business risks and oversees how they are managed on the recommendation of the Audit and Risk Committee;
 - monitors the adequacy, appropriateness and operation of internal controls including reviewing and approving the Company's compliance systems; and
 - monitors compliance with key regulations.
- Managerial Oversight
 - appoints the Chief Executive Officer (**CEO**) and the Company Secretary in conjunction with the CEO;
 - regularly reviews succession plans;
 - evaluates the performance of the CEO and Senior Management;
 - provides oversight of the remuneration framework; and
 - approves annual remuneration recommendations for the CEO and Senior Management on the advice of the Remuneration and Nomination Committee.
- Delegations
 - determines delegations to Committees, subsidiary boards and individual members of the Board;
 - determines delegations to Management; and
 - approves transactions in excess of delegated levels.
- Corporate Governance
 - approves McGrath's corporate governance approach and monitors compliance;
 - considers, approves and endorses major policies of the organisation including a *Code of Conduct* which includes ethical behaviour and social responsibility;
 - provides continuous disclosure of information to the investment community;
 - makes available information Shareholders can reasonably require to make informed assessments of McGrath's prospects;
 - assesses its own performance and that of individual Directors;
 - selects, appoints and recommends appointment of new Directors to Shareholders;
 - oversees the implementation of appropriate work health and safety systems; and
 - protects and oversees the enhancement of the reputation of McGrath.

Matters that are specifically reserved for the Board (or its Committees) include:

- appointment of the Chair;
- appointment and removal of the CEO;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board Committees, their membership and delegated authorities;
- approval of dividends;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to Management;

- calling of meetings of Shareholders; and
- any other specific matters nominated by the Board from time to time.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO).

The Board has established the following committees to assist it in discharging its functions:

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

The Board's responsibilities are set out in the *Board Charter*, which is available on McGrath's website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Chief Executive Officers

In July 2016, the Board announced that it had appointed Cameron Judson as the Joint CEO of the Company, to work alongside McGrath founder, John McGrath. Effective 25 August 2016, Cameron Judson will assume full-time CEO responsibilities to allow John McGrath the opportunity to shift his role away from the operational activities of the business to focus on brand, growth and innovation.

The CEO is responsible for the day-to-day management of McGrath with the authority to exercise all necessary powers, discretions and delegations authorised from time to time by the Board. The CEO is supported by the Executive Management team, all of whom are listed on McGrath's website under 'About Us' / 'Board & Management' at www.mcgrath.com.au/about/management-team.

Access to information and independent professional advice

Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chair, or the Board as a whole. If appropriate, this advice will be shared with the Board as a whole.

Board meetings

The Board holds regular meetings and is expected to meet at least six times per calendar year or as frequently as may otherwise be required to deal with urgent matters, which might arise between the scheduled meetings.

For details of the current Directors, their qualifications, skills and experience, refer to "Board of Directors", contained within the Annual Report. For details of Directors' attendance at Board and Committee Meetings for the year ended 30 June 2016, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

Appointment and re-election of Directors

The Board, together with the Remuneration and Nomination Committee, determines the size and composition of the Board, subject to the terms of the Company's Constitution.

At the time of McGrath's ASX listing, it was intended that the Board would initially consist of an equal number of independent Non-Executive Directors and non-independent Directors. The Board has announced that it has appointed an additional independent Non-Executive Director, Elizabeth Crouch and that David Mackay has resigned with effect from 25 August 2016.

When appointing new Directors, the Board, together with the Remuneration and Nomination Committee, will review the skills represented by Directors on the Board and determine whether the composition and mix of those skills remain appropriate for McGrath's strategy, subject to limits imposed by the Company's Constitution and the terms served by existing Non-Executive Directors.

At commencement of the Director selection process, McGrath will undertake appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Director.

Prior to appointment, candidates are required to provide the Chair with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil his or her responsibilities as a Non-Executive Director of McGrath.

Directors available for re-election at a general meeting are reviewed by the Remuneration and Nomination Committee and recommended to the Board. Directors are re-elected in accordance with the Company's Constitution and the ASX Listing Rules.

Elizabeth Crouch is the first Non-Executive Director appointed since the Company's listing on the ASX, and the process has been followed regarding Elizabeth Crouch's appointment. Shareholders will be provided with details about each Director for re-election in the notice of meeting for the Annual General Meeting (**AGM**) to enable Shareholders to make a decision on election.

McGrath enters into a written agreement with each Director and Senior Executive setting out the key terms, conditions and responsibilities of their position. This includes a confirmation from the Director that he or she has the necessary time to devote to the Board position.

Company Secretary

All Directors have direct access to the Company Secretary who is responsible to the Board on all matters relating to the conduct and functions of the Board and Committees. The Company Secretary's responsibilities are set out in the *Board Charter*, which is available on the McGrath website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Diversity

McGrath values a strong and diverse workforce and is committed to promoting a corporate culture that embraces diversity. The Board adopted a *Diversity Policy* in order to facilitate over a reasonable transition period, adequate representation of women in Senior Management positions and on the Board.

On an annual basis, the Remuneration and Nomination Committee is responsible for reviewing the:

- effectiveness of the *Diversity Policy* by:
 - assessing McGrath's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives; and
 - reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented; and
- relative proportion of women and men on the Board, in Senior Management positions and in the workforce at all levels of McGrath and submit a report to the Board outlining the findings including any recommendations for changes to those strategies or the way in which they are implemented.

The *Diversity Policy* is available on McGrath's website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

The Board is considering appropriate diversity -related measurable objectives and will provide an update in due course.

McGrath's workforce diversity is as follows:

Role	Female		Male	
	Number	Percentage	Number	Percentage
Board	2 ¹	50%	2 ²	50%
Senior Management Team ³	3	30%	7	70%
Other Roles	307	62%	182	38%
Overall for McGrath	311	62%	191	38%

McGrath is a "relevant employer" under the Workplace Gender Equality Act 2012 and the Groups most recent public report to The Workplace Gender Equality Agency is located at www.wgea.gov.au/report/public-reports.

Performance review of the Board

The Remuneration and Nomination Committee is responsible for establishing the processes for reviewing the performance of the Board, the Board's Committees and individual Directors.

The Board, Audit and Risk Committee and Remuneration and Nomination Committee will periodically self-assess their performance against a range of set criteria developed annually by the Remuneration and Nomination Committee.

From time to time during 2016, the Board has considered and reviewed the performance of the Board, individual Directors and the Board Committees during the year ended 30 June 2016. However, during the year ended 30 June 2016, the Board did not conduct a formal performance evaluation as the Board was only in operation for part of the year. It was the Board's view that a performance evaluation process at this early stage would not be of significant value. It is intended to conduct a Board and Board Committee evaluation process during the 2016/17 financial year.

Performance review of Executive Management

The Remuneration and Nomination Committee is responsible for reviewing and recommending remuneration arrangements for the CEO and the Senior Executives reporting to the CEO, including contract terms, annual remuneration and participation in McGrath's short and long term incentive plans.

Moving forward, at least annually, the Remuneration and Nomination Committee will conduct a performance evaluation of the CEO to assess whether the CEO has met the CEO's key performance indicators. Mr McGrath's annual review was completed during the financial year ended 30 June 2016 and details of Mr McGrath's remuneration is set out in the *Remuneration Report*. Mr Judson was not appointed as CEO until after the year ended 30 June 2016.

Management team members' ('**Executives**') key performance indicators are set annually in collaboration with the CEO and each individual executive. At least annually, the CEO conducts one-on-one performance evaluations with the individual Executives reporting directly to him to assess whether each Executive has met their key performance indicators. Performance evaluations for each of the Executives were completed during the financial year ended 30 June 2016 and the details of the Executives' remuneration is set out in the *Remuneration Report*.

¹ Including Elizabeth Crouch whose appointment takes effect on 25 August 2016.

² Excluding David Mackay whose resignation takes effect on 25 August 2016.

³ Senior Management Team includes Cameron Judson, John McGrath, Paul Hauenschild, Morgan Sloper, Matt Lahood, Gary Vouris, Olivia Wokes, Karen Jacobs, Annette Rose and Anthony Meaker.

Principle 2: The Board is structured to add value

Board Committees

Remuneration and Nomination Committee

The Remuneration and Nomination Committee:

- has three members and a majority of whom are independent Non-Executive Directors;
- is chaired by Daniel Petre, who is an independent Non-Executive Director;
- has a Charter, which is available on the McGrath website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre;
- meets as often as the Remuneration and Nomination Committee deems necessary in order to fulfil their role, however it is intended that the Remuneration and Nomination Committee will meet at least three times a year; and
- in its function as a nominations committee, the Committee is to review and consider the structure and balance of the Board and make recommendations regarding appointments and re-elections. In particular, the Committee is to:
 - identify and recommend to the Board, candidates for the Board after considering the necessary and desirable competencies of new Board members, the range and depth of skills and the diversity of the Board;
 - review induction procedures for new appointees to the Board to facilitate their ability to discharge their responsibilities;
 - assess and consider the time required to be committed by a Director to properly fulfil their duty to the Company and advise the Board; and
 - review succession plans for the Board with a view to maintaining an appropriate balance of skills and experience on the Board.

Audit and Risk Committee

Details of the Audit and Risk Committee are contained in the disclosure under Principles 4 and 7.

Each Committee may obtain information from, and consult with, Management and external advisers, as it considers appropriate.

For details of the number of Committee meetings and the attendance at those meetings during the year ended 30 June 2016, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

Non-Executive Directors should inform the chairperson and the chair of the Remuneration and Nomination Committee before accepting any new appointment as a director of another listed entity, another material directorship or other position with a significant time commitment attached.

Board Skills Matrix

The composition of the Board is reviewed on an annual basis by the Remuneration and Nomination Committee to ensure that the Board has the appropriate mix of skills, knowledge and experience to guide McGrath and assist Management to achieve the strategic objectives set by the Board.

The annual review is facilitated by considering a Board skills matrix developed by the Remuneration and Nomination Committee which looks at the current skills and diversity of the Board and its needs going forward. The Board considers that there is currently an appropriate mix of skills, diversity and experience on the Board, taking into account the size of McGrath and the nature of McGrath's operations.

The mix of skills and experience in the current Board, and that the Board would look to maintain, and build on are as follows:

Financial acumen Experience in accounting and finance to analyse statements, assess financial viability, contribute to financial planning, oversee budgets and oversee funding arrangements.	Strategy Ability to identify and critically assess strategic opportunities and threats to the organisation. Develop strategies in context to our policies and business objectives.
Remuneration Ability to review and make recommendations regarding remuneration structures, including equity incentives.	Risk management Identify and monitor key risks to the organisation related to each key area of operations.
Legal & Governance Ability to review legal, regulatory and governance developments and impact on the Company.	Industry experience Understanding of the real estate sector and other sectors in which the company operates.
Information Technology & Innovation IT strategies and infrastructure, networks; latest innovations in data security and storage.	Senior executive experience Experience in evaluating performance of senior management, and oversee strategic human capital planning.
Mergers and Acquisitions Experience in identifying and managing the process for mergers and acquisitions, including integration.	Leadership Make decisions and take necessary actions in the best interest of the organisation, and represent the organisation favourably. Analyse issues and contribute at board level to solutions.
Ethics and Integrity Understand role as Director and continue to self-educate on legal responsibility, ability to maintain Board confidentiality, declare any conflicts.	Contribution Ability to constructively contribute to Board discussions and communicate effectively with Management and other Directors.
Diversity Adequate diversity to bring different perspectives to Board discussions (e.g. age, gender, background, nationality).	Previous board experience Experience as a director in other companies.

The Board will continue to monitor and update the skills matrix at least annually to ensure that as McGrath develops, the Board comprises the appropriate mix of skills and experience.

The Board recognises the importance of succession and renewal. It continues to monitor the Board composition accordingly. The Board, with oversight from Cass O'Connor, will focus on succession planning within the Board including the appointment of an independent Chair to succeed Cass O'Connor at the end of her term.

Composition of the Board and details of Directors

The Directors of McGrath bring to the Board relevant skills and experience, including in the areas of the Australian real estate sector, international retail and fast-moving consumer goods, entrepreneurial and technology based businesses, investment banking and operational excellence corporate strategy and corporate governance.

The Board currently has four Directors with an equal number of independent Non-Executive Directors and non-independent Directors. Cass O'Connor is not considered independent solely because she has been a Director of McGrath for over 15 years. However, the Board believes that her significant experience and skills are highly valuable to McGrath.

The Board has appointed Elizabeth Crouch as an Independent Non-Executive Director, effective 25 August 2016. It was the intention of the Board to have an independent Director appointed Chair of the Audit and Risk Committee and accordingly, Elizabeth Crouch will also be appointed Chair of the Audit and Risk Committee.

From 10 September 2016 until the 25 August 2016, the Board was Chaired by an Independent Non-Executive Director, David Mackay. Following David Mackay's resignation effective 25 August 2016, the Chair of the Board will be Cass O'Connor. The Board considers it appropriate in the current circumstances for the Board to be Chaired by Cass O'Connor as they are of the view that Cass O'Connor's skills and extensive experience make her the best candidate for the role.

The Board considers that Cass O'Connor is a highly valuable member of the Board and that the Board is confident that Cass O'Connor will continue to provide independent judgement and an enquiring mind to all Board deliberations. The Board considers the current size and composition of the Board is appropriate to discharge its duties effectively.

The criteria by which the Board determines the independence of a Director is set out in the *Board Charter* which is available on McGrath's website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Director	Independent status	Length of Service/ Appointment date
David Mackay	Independent Non-Executive Director	10 September 2015 (resignation effective 25 August 2016)
John McGrath	Executive Director	10 September 2015 ⁴
Cass O'Connor (Chair) ⁵	Non-Executive Director	10 September 2015 ⁴
Daniel Petre AO	Independent Non-Executive Director	13 October 2015

⁴ Prior to McGrath's listing on ASX, an internal restructure of the Group took place. A newly established company, McGrath Holding Company Limited was established and acquired 100% of the shares of McGrath Limited. The holding company was renamed McGrath Limited post acquisition and the existing McGrath Limited was renamed McGrath Operations Limited. Accordingly, the above appointment dates are the dates of appointment for the new holding entity of the Group, McGrath Limited. It does not reflect the fact that both John McGrath and Cass O'Connor have both been directors of the McGrath Group for a significant period of time.

⁵ Cass O'Connor is not considered to be independent solely because she has been a director of McGrath (being the former holding company) for a period of over 15 years. Cass O'Connor has been appointed Chair effective 25 August 2016. At the end of Cass O'Connor's term as Chair, the Chair of the Board will also be required to be an independent Director.

Director	Independent status	Length of Service/ Appointment date
Elizabeth Crouch	Independent Non-Executive Director	25 August 2016

The Chair is a Non-Executive Director and there is a clear division of responsibility between the Chair and the CEO.

Each Director must immediately disclose to the Board if a Director is, or becomes aware of, any information, facts or circumstances that will or may affect the Director's independence.

For details of the current Directors, their qualifications, skills and experience refer to "Board of Directors", contained within the Annual Report.

Induction and education

The Remuneration and Nomination Committee is responsible for effective training and education program for all new and existing Directors, ensuring that McGrath provides appropriate professional development opportunities for continuing Directors.

The Remuneration and Nomination Committee is required to regularly review the effectiveness of the program to ensure Directors maintain the skills and knowledge required to perform their role effectively.

Any new Directors will undergo a formal induction program in which they are given a full briefing on McGrath, its operations and the industry in which it operates. Where possible, this will include meetings with key Executives, tours of premises, provision of a due diligence package and presentations from management. Furthermore, to achieve continuing improvement in Board performance, all Directors are encouraged to undergo regular professional development.

Each Director completed an induction program through their involvement in the due diligence process as part of listing on the ASX. Elizabeth Crouch is the only new Non-Executive Director who has been appointed since the Company's listing of the ASX.

Principle 3: The Board promotes ethical and responsible decision-making

Code of Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board adopted the *Code of Conduct*, which outlines how McGrath expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of McGrath (including McGrath's Directors, temporary employees, sales agents and franchisees) must comply with the *Code of Conduct*.

The key values underpinning the *Code of Conduct* are as follows:

- *Integrity* - owns the word "Integrity" in conducting themselves and in how they treat others, communicates openly and honestly with colleagues and clients, takes responsibility for themselves and their actions, displays ethical behaviours that encourage others to do the same.
- *Passion* - approaches every situation with intense enthusiasm and excitement.
- *Excellence* - provides "Six Star Service"; to meet and exceed the expectations of McGrath colleagues, managers and external clients, maintains quality despite pressure and time restraints.
- *Simplicity* - remain uncomplicated and easy to understand 'The quality of being simple'.
- *Community* - collaborates with other McGrath team members to achieve the most desirable outcome for all stakeholders, involved in the local community, gives 100% with little expectation of reward in return.

The *Code of Conduct* is available on the McGrath website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Securities Trading Policy

McGrath has adopted the *Securities Trading Policy* that is intended to:

- explain the types of conduct in relation to dealings in securities that are prohibited under the Corporations Act; and
- establish a best practice procedure for the buying and selling of securities that protects McGrath, Directors and employees against the misuse of unpublished information that could materially affect the value of securities.

The *Securities Trading Policy* applies to:

- all Directors and officers of McGrath (including the CEO and the COO);
- all direct reports to the CEO, the COO and their direct reports;
- any other Personnel designated by the Board (collectively, **Personnel**);
- closely related parties (as the term is defined in the Corporations Act) of all Directors and officers of McGrath, the CEO, the COO, all direct reports to them and all other Personnel of the Company; and
- all franchisees of the Company,

collectively, **Relevant Persons**.

In addition the *Securities Trading Policy* prohibits all Relevant Persons and all employees from dealing in the Company's securities where:

- they are in possession of price sensitive or 'inside' information; or
- the Company is in possession of price sensitive or 'inside' information and has notified Relevant Persons that they must not deal in securities (either for a specified period, or until the Company gives further notice).

The *Securities Trading Policy* sets out restrictions that apply to dealing with securities, including "blackout periods", during which Relevant Persons are not permitted to deal in securities (except in exceptional circumstances) and a procedure under which Directors and Senior Executives (and their closely related parties) may deal in any other period subject to approval.

In addition, during any period other than a Blackout Period, and before any dealing in shares is undertaken, a Relevant Person seeking to trade must provide notification to and seek approval for any proposed dealing in the Company's securities from the person/s approving the trade as set out in the table below:

Relevant Person seeking to trade	Person/s approving the trade
Directors and officers of the Group (including the CEO and COO)	Chair of the Board
Chair of the Board	Chair of the Audit and Risk Committee, and the CEO
The CEO and the COO's direct reports, their direct reports and any person designated by the Board under clause 2 of the <i>Securities Trading Policy</i>	CEO

Relevant Persons are prohibited from dealing in McGrath's securities (subject to exceptional circumstances) during the following mandated Blackout Periods:

- from the close of the ASX trading day on 31 May each year, until 10:00am AEST on the next ASX trading day following the day on which the Company's full year results are released to the ASX;
- from the close of the ASX trading day on 30 November each year, until 10:00am AEDT on the next ASX trading day following the day on which the Company's half-yearly results are released to the ASX; and

- any other period that the Board specifies from time to time.

The *Securities Trading Policy* is available on the McGrath website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

Principle 4: The Board safeguards integrity in corporate reporting

Audit and Risk Committee

The Audit and Risk Committee:

- has currently has three members and a majority of whom are independent Non-Executive Directors;
- has been chaired by Cass O'Connor, who is a Non-Executive Director. Cass O'Connor is not considered independent. Moving forward, Elizabeth Crouch will be appointed as the Chair of the Audit and Risk Committee and Elizabeth Crouch is considered independent. The Board considers that given Cass O'Connor's extensive experience and financial, risk and commercial skills, Cass O'Connor was the appropriate person to Chair the Audit and Risk Committee from the Company's listing on ASX. The Board is confident that in her role as Chair of the Audit and Risk Committee, Cass O'Connor has provided the independent judgement required to oversee McGrath's corporate reporting process and risk oversight;
- has a Charter that is available on the McGrath website under 'About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre; and
- meets as often as the Audit and Risk Committee Considers is necessary, however it is intended that the Committee will meet at least four times a year.

In accordance with its Charter, it is intended that all members of the Audit and Risk Committee should be financially literate and the Committee Chair should have significant and relevant financial experience.

The primary roles of the Audit and Risk Committee include:

- overseeing the process of financial reporting (including to assist the CEO and CFO to provide their declaration under section 295A of the Corporations Act), internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;
- monitoring McGrath's compliance with laws and regulations and McGrath's own policies;
- encouraging effective relationships with, and communication between, the Board, management and McGrath's external auditor; and
- evaluating and making recommendations in relation to the adequacy and effectiveness of McGrath's risk management and internal control processes established to identify and manage areas of potential risk and to seek to safeguard the assets of McGrath, noting that McGrath does not have a formal internal audit function.

The Audit and Risk Committee's roles in relation to external audit include reviewing and making recommendations to the Board in relation to the:

- reporting of financial information;
- appropriate application and amendment of accounting policies; and
- appointment, independence and remuneration of the external auditor.

Under the *Audit and Risk Committee Charter*, it is the policy of McGrath that its external auditing firm must be independent of it. The Audit and Risk Committee will review and assess the independence of the external auditor on an annual basis.

The Audit and Risk Committee may obtain information from, and consult with, management, the external auditor and external advisers, as it considers appropriate. The Audit and Risk Committee also has access to the external auditor to discuss matters without Management being present.

The Audit and Risk Committee met three times during the year ended 30 June 2016. For details of the qualifications and experience of each Audit and Risk Committee member, refer to refer to "Board of Directors", contained within the Annual Report and for details regarding the number of Audit and Risk

Committee meetings and the attendance at those meetings, refer to “Board of Directors – Attendance at meetings” contained within the Annual Report.

CEO and CFO declaration

Prior to Board approval of McGrath’s half year and annual financial reports, the CEO and CFO must provide the Board with declarations required under section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles.

For the financial year ended 30 June 2016, the CEO and CFO made a declaration in accordance with section 295A of the Corporations Act. The declaration was formed on the basis of a sound system of risk management and internal control which is operating effectively. An equivalent declaration was made for the half year ended 31 December 2015.

Auditor at AGM

At McGrath’s inaugural AGM and all future AGMs, the external auditor will be present and available to answer Shareholder questions on the:

- conduct of the audit;
- preparation and content of the external auditor’s report;
- accounting policies adopted by McGrath in relation to the preparation of the financial statements; and
- independence of the auditor in relation to the conduct of the audit.

Principle 5: The Board makes timely and balanced disclosure

The Board’s aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of McGrath.

McGrath has adopted a *Continuous Disclosure Policy* to ensure compliance with the explicit requirements and the spirit and intent of its disclosure obligations under the Corporations Act and ASX Listing Rules.

The Board bears the primary responsibility for McGrath’s compliance with its continuous disclosure obligations and is therefore responsible for overseeing and implementing this Policy. The Board makes the ultimate decision on whether there is any materially price sensitive information that needs to be disclosed to the ASX. It is a standing agenda item at all Board meetings to consider any information that must be disclosed to the ASX in accordance with the Company’s continuous disclosure obligations.

Under the *Continuous Disclosure Policy*, the Board has appointed the Company Secretary with responsibility for compliance with McGrath’s continuous disclosure obligations. The Board must approve:

- any release which relates to a matter which is both material and strategically important for McGrath;
- any other release considered under the *Continuous Disclosure Policy* which includes disclosure of a profit projection or forecast; and
- any decision to request a trading halt or voluntary suspension of trading pending an announcement, except where the disclosure or decision is urgent and a meeting of the Board cannot be called at short notice.

Except as described above otherwise, the CEO, COO or (where appropriate) the Chair, must approve and is accountable for the disclosure of material information to the market.

The Company Secretary has primary responsibility for all communication with ASX in relation to ASX Listing Rule matters.

The Continuous Disclosure Policy is available on McGrath’s website under About Us’ / ‘Investor Centre’ at www.mcgrath.com.au/about/investorcentre.

Principle 6: The Board respects the rights of Shareholders

McGrath respects the rights of its Shareholders and to facilitate the effective exercise of those rights, McGrath’s policy is to promote effective two-way communication with Shareholders and other investors

so that they understand McGrath's business, governance, financial performance and prospects, as well as how to assess relevant information about McGrath and its corporate activities.

Company website

McGrath's website is at www.mcgrath.com.au and is regularly kept up-to-date to maintain effective communication with Shareholders and stakeholders.

The following information is available on McGrath's website:

- a profile of McGrath, its businesses and location of offices;
- Director and Management team profiles;
- Corporate governance overview including the Board and Board Committee Charters and Board approved policies;
- all ASX announcements made to the market since listing on the ASX, including annual and half year financial results, are posted on McGrath's website under About Us' / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre as soon as they have been released by the ASX;
- copies of all investor presentations made to analysts and media briefings;
- half year and full year financial statements and Link Group's Annual Report;
- investors services including a link to McGrath's share registry, managed by Link Market Services; and
- share price and tools and investor contact details.

Alternatively, McGrath ASX announcements can be accessed from the 'announcements' section of the ASX website (ASX code: MEA) at www.asx.com.au/asx/statistics/announcements.

Investor relations program

The Company will hold its AGM in November 2016 and the Chair, CEO and Chief Financial Officer will engage in two-way communications with Shareholders in advance of the AGM, as appropriate.

McGrath has appointed the CEO and COO (or in their absence their delegate), as authorised spokespersons. Further details are contained in the *Continuous Disclosure Policy*.

Further, McGrath recognises the importance of its relationships with investors and analysts. Following the Company's release of its half year and annual financial statements, McGrath conducts investor briefings (via teleconference calls) and investor roadshows with institutional groups and analysts. Copies of these presentations are made available to all shareholders on McGrath's website at <https://investor.mcgrath.com.au/Investor-Centre/?page=presentations-webcasts>

Shareholder engagement and participation

The contact details of McGrath and its share registry (see below under 'electronic communications') are available to Shareholders to address and facilitate any Shareholder-related enquiries.

McGrath will be holding its inaugural AGM in November 2016. To encourage Shareholder engagement and participation at the AGM, Shareholders have the opportunity to attend the AGM, ask questions from the floor, participate in voting and meet the Board and the Senior Management team in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the notice of meeting or online through the share registry's website. Shareholders have the opportunity to submit written questions to McGrath and its external auditor, or make comments on the management of McGrath and access AGM presentations and speeches made by the Chair and CEO prior to the commencement of the meeting. McGrath will publish results of the meeting to the ASX and on its website following the conclusion of the AGM.

Electronic communications

McGrath's contact details are available on the McGrath website under Investor Centre at <https://investor.mcgrath.com.au/Investor-Centre/?page=investor-contacts>. Shareholders can, email McGrath at investorcentre@mcgrath.com.au or contact its share registry, Link Market Services at registrars@linkmarketservices.com.au.

Shareholders may elect to receive all Shareholder communications (including notification that the annual report is available to view, notices of meeting and payment statements) by email. Electronic communications have the added advantage of being more timely and cost effective, which benefits all Shareholders. Shareholders should contact Link Market Services if they want to elect to receive electronic communications.

Principle 7: The Board recognises and manages risk

Audit and Risk Committee

In its function as a risk committee, the Audit and Risk Committee assists the Board in fulfilling its corporate governance responsibilities in regard to oversight of McGrath's risk management framework and internal control systems.

McGrath considers risk management to be integral to the Company achieving and maintaining its operational and strategic objectives. The Board is responsible for approving the Company's risk management approach and reviewing and monitoring significant business risks and overseeing how they are managed. The Board has delegated to the Audit and Risk Committee the responsibility of reviewing and making recommendations to the Board on the Company's overall risk profile and risk appetite.

Details of the Audit and Risk Committee are contained in the disclosure under Principle 4. For details regarding the number of Audit and Risk Committee meetings and the attendance at those meetings, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

McGrath's *Audit and Risk Committee Charter* sets out the requirements, roles and responsibilities for managing risks across the McGrath Group. The *Audit and Risk Committee Charter* is available on the McGrath website under About Us / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.

The Audit and Risk Committee's primary role with respect to risk management is to:

- review and endorse McGrath's risk management framework and significant variations to it, including overseeing its effectiveness, with a view specifically to enable the timely and effective identification of material risks to McGrath;
- receive and review reports concerning the appropriateness of the risk management framework and approve or vary it as necessary;
- review and make recommendations to the board on the Company's overall risk profile and risk appetite as well as the Company's risk profile in each risk area of market, liquidity, equity, credit, regulatory, and operational. There should also be a review of:
 - developments in technologies and markets in which McGrath operates;
 - the appropriate level of insurance cover that McGrath should maintain, including the terms and conditions of any such insurances; and
 - experience of profits and losses in each risk category to provide confidence that McGrath's policy reflects and is consistent with experience;
- review and make recommendations to the board on McGrath's capital management plan including information on McGrath's capital adequacy and economic capital model;
- review and approve risk matters requiring Board approval including significant variations to policies, limits and delegations of authority where these have not been reviewed by the Board;
- review limit and policy breaches to the extent that there are implications for the risk management framework; and
- assess the risk management framework against the expectations of corporate regulators.

Management of risks is embedded in the culture of the management team with risk management practices in place across the business. In addition, as part of the due diligence process for the drafting of the Prospectus for the IPO, risks across the business were extensively reviewed.

Since its listing on ASX, the Board (through the Audit and Risk Committee) has considered McGrath's risk management framework, material risks and the relevant controls as identified on the risk register.

McGrath's risk management system is designed to ensure that it explicitly identifies the risks it faces and has measures and risk mitigation strategies in place to keep those risks to an acceptable minimum.

McGrath has a risk management framework which accounts for key enterprise risks to be identified and categorised according to whether they are regulatory risk, strategic risk, operational risk, people risk or financial risk and provide an owner of each risk.

Senior Management has reported to the Board (through the Audit and Risk Committee) on the effectiveness of the management of the material risks faced by McGrath during the financial year ended 30 June 2016.

The Board has reviewed the Company's risk management framework and considers that it is sound.

Internal audit

Due to the size and current stage of development of McGrath, McGrath does not have an independent internal audit function. Oversight of the effectiveness of McGrath's risk management and internal control processes currently form part of the responsibilities of Management. As McGrath continues to develop, the Audit and Risk Committee will consider establishing an independent internal audit function.

Economic, environmental and social sustainability risks

As set out above, McGrath has a risk management framework which accounts for key enterprise risks to be identified and categorised according to whether they are regulatory risk, strategic risk, operational risk, people risk or financial risk.

McGrath has exposures to a number of risks as detailed in the Prospectus, including the following material economic risks:

- **Australian residential real estate market** – McGrath generates the majority of its income from the Australian residential real estate market through commission revenue generated by agents on the sale of properties, property management commissions and commissions on the arranging of mortgages.

The risk of a reduction in sales transaction volumes or prices is a material risk for McGrath and could be impacted by general economic conditions and factors beyond the Company's control such as housing affordability, employment, interest rates, domestic investor growth and demand, foreign investment and consumer confidence.

- **increased competition and disintermediation** – McGrath operates in a highly competitive environment and constantly monitors the market and the competitive environment. McGrath is also potentially exposed to disintermediation whereby buyers and sellers are able to transact directly in private sale without utilising the services of an agent.

McGrath prides itself on delivering exceptional client service and providing a market-leading experience.

These risks are carefully managed by the Company, including by:

- the CEO and Senior Management regularly reviewing and monitoring the market and sales and any potential risks to McGrath's operations;
- expanding McGrath's footprint and increasing the geographic diversity of the Company to protect against losses suffered in particular regions as a result of adverse change in those particular regions;
- focussing on the performance and retention of high performing agents;
- focussing on continuing to deliver market leading service and exceptional customer experiences; and
- continually testing and considering ways to diversify the business model.

McGrath does not have material exposures to environmental and social sustainability risks, although McGrath's approach to managing these risks is outlined below.

McGrath has clearly defined values that include integrity, passion, excellence, simplicity and community.

All personnel are expected to uphold the Company's commitment to pursue good corporate citizenship while engaging in its corporate activity and the McGrath supports its team to actively contribute to the needs of the community.

McGrath is committed to doing business in an environmentally responsible manner and to identifying environmental risks that may arise out of its operations.

Principle 8: The Board remunerates fairly and responsibly

Remuneration and Nomination Committee

In its function as a remuneration committee, the Remuneration and Nomination Committee assists the Board in fulfilling its corporate governance responsibilities in regard to:

- assessing the remuneration policy and compliance with legal and regulatory requirements;
- reviewing material changes to the remuneration policy, including remuneration structure, retention and termination policies for all staff;
- reviewing material changes to the recruitment policies, procedures and remuneration approach for the Company's Senior Management team (including the CEO and the COO);
- recommending performance-based (at-risk) components of remuneration and targets for the Company's financial performance as they relate to incentive plans, including equity-based payments; and
- assessing overall remuneration outcomes, including by gender.

Details of the Remuneration and Nomination Committee are contained in the disclosure under Principle 2. Details of the number of Remuneration and Nomination Committee meetings and the attendance at those meetings, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

Remuneration Report and remuneration policies

In relation to remuneration issues, the Board (with the assistance of the Remuneration and Nomination Committee) has established a remuneration philosophy to ensure that it remunerates fairly and responsibly. The remuneration philosophy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated Directors and employees.

Details about McGrath's remuneration philosophy, policies and practices are provided within the *Remuneration Report*, which is part of the *Directors' Report*. As detailed in the *Remuneration Report*, the structure of Non-Executive Directors' remuneration and that of Executives is clearly distinguished. Non-Executive Directors receive fees, which do not include any incentive payments. Executives participate in incentive plans as detailed in the *Remuneration Report*. There are also no retirement schemes for Non-Executive Directors, other than superannuation.

Equity-based remuneration scheme

McGrath has established the:

1. *McGrath Equity Incentive Plan*, under which Eligible Participants may receive:
 - **Options:** an entitlement to receive a Share on satisfaction of specified conditions and payment of a specified exercise price;
 - **Performance Share Rights:** an entitlement to receive a Share for no consideration on satisfaction of specified conditions; and
 - **Restricted Shares:** are fully paid ordinary shares subject to a restriction on sale and that may be forfeited if certain performance hurdles are not met.
2. *McGrath Tax Exempt Employee Share Plan*, the purpose of which is to:
 - encourage participation by Eligible Employees in McGrath through Share ownership with an aggregate value of up to \$1,000 for no consideration payable to McGrath;
 - assist in the reward, retention and motivation of Eligible Employees;

- align the economic interests of Eligible Employees with Shareholders by providing an opportunity to earn rewards via an equity interest in McGrath based on creating Shareholder value; and
- provide a tax efficient structure for the provision of equity to Eligible Employees.

The Board will consider the use of equity based remuneration to reward, motivate and retain Management including the use of equity as a means of deferring short term incentives or as an instrument for delivering long term incentives. The Board's objective, when considering future equity based remuneration, will be to implement a remuneration framework that aligns the interests of participants with McGrath's strategic objectives in order to maximise Shareholder value.

Under the *McGrath Equity Incentive Plan* and *Securities Trading Policy*, participants are prohibited from entering into any arrangement, including any financial product that operates to limit the economic risk of the Options and Performance Share Rights, prior to vesting or becoming exercisable (as relevant).

The terms and conditions of the *McGrath Equity Incentive Plan* are available on the 'Announcements' section of the ASX website for 'MEA' lodged on 7 December 2015. The *Securities Trading Policy* is available on McGrath's website under About Us / 'Investor Centre' at www.mcgrath.com.au/about/investorcentre.