

nickskali
L I M I T E D

Corporate Governance
Statement 2020



Corporate Governance Statement 2020

As at 6 August 2020

Overview

The Board of Directors of Nick Scali Limited (the 'Board') is responsible for the direction and supervision of the Nick Scali Limited's business and for its overall corporate governance. The Board recognises the need to maintain the highest standards of behaviour, ethics and accountability.

The Board is committed to effective corporate governance in order to ensure accountability and transparency to shareholders and other stakeholders, including customers, employees, staff and regulatory bodies. This includes ensuring that internal controls and reporting procedures are adequate and effective. Responsibility for the management of the day to day operations and administration of the company is delegated to the Managing Director.

This Corporate Governance Statement of Nick Scali Limited (the 'Company') has been prepared in accordance with the 3rd Edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations').

The Board lays solid foundations for management and oversight

The Board

The Board maintains the following roles and responsibilities:

- being accountable for the performance of the Company;
- providing leadership and setting the strategic objectives of the Company;
- appointing the Chairman;
- appointing, and when necessary replacing, the Managing Director and Company Secretary, and monitoring the appointment of other senior executives;
- assessing the performance of the Managing Director and overseeing succession plans for senior executives;
- overseeing management's implementation of the Company's strategic objectives;
- approving operating budgets and major capital expenditure;
- overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit;

- overseeing the Company's process for market disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- ensuring that the Company has in place an appropriate risk management framework and setting the risk parameters within which the Board expects management to operate;
- approving the Company's remuneration framework; and
- monitoring the effectiveness of the Company's governance practices; and reporting to and communications with shareholders.

The Board has delegated the day-to-day management of the Company to the Managing Director and other senior executives who are responsible for the following:

- implementing the strategic objectives set by the Board;
- operating within the risk parameters set by the Board;
- operational and business management of the Company;
- managing the Company's reputation and operating performance in accordance with parameters set by the Board;
- day-to-day running of the Company;
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
- approving capital expenditure within delegated authority levels.

The majority of the Board members and the Chairman are independent.

The number of meetings of the Board held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' Report.

Board appointments

Before appointing a director to the Board, or putting forward to shareholders a director for appointment, the Company undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history, qualifications, criminal history, bankruptcy history, and disqualified officer status. Directors are required to declare each year that they have not been disqualified from holding the office of director by the Australian Securities and Investments Commission ('ASIC').

An election of directors is held each year. A director that has been appointed during the year must stand for election at the next Annual General Meeting ('AGM'). At least one-third of directors, other than the Managing Director, must retire and seek re-election at each AGM of the Company.

The Company provides to shareholders for their consideration information about each candidate standing for election or re-election as a director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which include experience and qualifications, details of other directorships, adverse information about the person that the Board is aware of including material that may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

The terms of the appointment of a non-executive director are set out in writing and cover matters such as the term of appointment, time commitment envisaged, required committee work and other special duties, requirements to disclose their relevant interests which may affect independence, corporate policies and procedures, indemnities, and remuneration entitlements.

Executive directors and senior executives are issued with service contracts which detail the above matters as well as the person or body to whom they report, the circumstances in which their service may be terminated (with or without notice), and any entitlements upon termination.

The Company Secretary reports directly to the Board through the Chairman and is accessible to all directors. The Company Secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

- advising the Board and its Committees on governance matters;
- monitoring compliance of the Board and its Committees with policies and procedures;
- coordinating all Board business;
- retaining independent professional advisors;
- ensuring that the business at the meetings of the Board and its Committees is accurately recorded in the meeting minutes; and
- assisting with the induction and development of directors.

Diversity

The Company has a diversity policy which requires the Board to set measurable objectives for achieving gender diversity and to assess the objectives and the Company's progress towards achieving them on an annual basis.

The policy aims to provide a work environment where employees have equal access to career opportunities, training and benefits. It also aims to

ensure that employees are treated with fairness and respect, and are not judged by unlawful or irrelevant reference to gender, age, ethnicity, race, cultural background, disability, religion, sexual orientation or caring responsibilities. This commitment enables the Company to attract and retain employees with the best skills and abilities.

The Company's objectives in relation to gender diversity are:

- to recruit from a diverse range of people;
- to ensure all employees have equal access to opportunities in the workplace;
- to ensure there is equal pay for equal work; and
- to continue to build an environment that is accepting of a diverse range of backgrounds and views.

The respective proportion of women and men in the Company and its subsidiaries as at 30 June 2020 were as follows:

Board	Men 75%	Women 25%
Senior Executives	Men 71%	Women 29%
All Employees	Men 59%	Women 41%

For this purpose, the Board defines a senior executive as a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the Company's financial standing. This therefore includes all senior management and senior executive designated positions as well as senior specialised professionals.

The Company is compliant with the Equal Opportunity for Women in the Workplace Act 1999.

A copy of Nick Scali Limited 2019-20 report to the Workplace Gender Equality Agency is available at <http://www.nickscali.com.au/corporate-governance>

Board performance

The Board reviews its performance regularly, as well as the performance of individual committees and directors. The process of evaluation consists of assessing the relative strengths and weaknesses of the directors and the committees they are members of and identifying areas that can be improved. This is achieved by way of collective Board discussions and individual interviews. The use of an external facilitator may be utilised periodically to assist in the review process.

A formal Board performance evaluation was completed during the year ended 30 June 2020.

The Board conducts an annual performance assessment of the Managing Director against agreed performance measures determined at the start of the year. The Managing Director undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the Company.

The Managing Director provides a report to the Board on the performance of senior executives together with remuneration recommendations which must be approved by the Board after consultation with the Remuneration and Human Resources Committee. The last review of senior executives in accordance with this process was undertaken during June 2020.

The Board is structured to add value

Skills and experience

The Board has not established a separate nomination committee, instead the responsibility for the activities of a nominations committee rests with all non-executive directors as named in the Annual Report.

The Board is responsible for addressing board succession issues and for ensuring that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to discharge its duties.

The Board currently believes that its membership adequately provides the appropriate mix of skills and experience. External consultants may be brought in with specialist knowledge to address areas where applicable.

The mix of skills and experience comprised in the current Board, and that the Board would look to maintain, and to build on, includes:

- retail management experience, including large format retail and general retail in Australia and New Zealand;
- logistics and supply chain management;
- technical financial expertise and strategic financial management, including mergers and acquisitions;
- experience within fast moving consumer businesses, including brand management and senior human resources experience; and
- listed company experience at board level.

Details of the directors, their term of office and their qualifications, skills and experiences are detailed in

the Directors' Report (included within the Annual Report).

Independence

The Board assesses annually the independence of each director to ensure that those designated as independent do not have any alliance to the interests of management, substantial shareholders or other relevant stakeholders. They must 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 to act in the best interests of the Company and its security holders generally.

The Board may determine that a director is independent notwithstanding the existence of an interest, position, association or relationship of the kind identified in the examples listed under Recommendation 2.3 of the ASX Principles and Recommendations. Having regard to Recommendation 2.3, the majority of the Board at the reporting date were considered to be independent.

John Ingram is Chairman of the Board and is considered to be an independent director of the Company.

New directors undertake an induction program coordinated by the Company Secretary on behalf of the Remuneration and Human Resources Committee. The program includes strategy briefings, explanations of company policies and procedures, governance frameworks, cultures and values, company history, director and executive profiles and other pertinent company information. Where appropriate, a director development program is also available which is coordinated by the Company Secretary to ensure that directors can enhance their skills and remain abreast of important developments to enable them to discharge their director obligations as effectively as possible.

The Company promotes ethical and responsible behaviour

Code of Conduct

The Company maintains a code of conduct for its directors, senior executives and employees. In summary, the code requires the following of each relevant person:

- act honestly, in good faith and in the best interests of the Company as a whole;
- exercise a duty to use care and diligence in fulfilling the functions of office or position and exercising the powers attached to that office or position;

- use the powers of office for a proper purpose and in the best interests of the Company as a whole;
- recognise that the primary responsibility is to the Company as a whole but may, where appropriate, have regard for the interest of other stakeholders of the Company;
- not to make improper use of information acquired as a director or employee;
- not take improper advantage of their position as a member of the Board or employee;
- properly manage and declare any conflict of interest with the Company;
- directors to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board;
- confidential information received in the course of the exercise of their duties remains the property of the Company and, unless appropriate authority granted, it is improper to disclose it, or allow it to be disclosed;
- not to engage in conduct likely to affect the reputation of Company; and
- to comply with the spirit, as well as the letter, of the law and with the principles of this Code.

The Board safeguards the integrity of corporate reporting

The Audit Committee

The Board maintains an Audit Committee, the members of which are named in the Annual Report.

The majority of the members of the Audit Committee, including the Chairman, are considered to be independent.

Details of the qualifications and experience of the members of the Audit Committee are included in the 'Information of directors' section of the Directors' Report.

Audit Committee meetings are held regularly throughout the year and operates under a charter approved by the Board. The Audit Committee's responsibilities under the charter are to:

- assist the Board to discharge fiduciary responsibilities with regard to the Company's accounting, control and reporting practices; by monitoring the internal control environment and management over corporate assets;
- review and recommend to the Board the adoption of the Company's annual and half-yearly financial statements;
- review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer;

- provide assurance regarding the quality and reliability of financial information used by the Board;
- review the Company's risk management policies and internal control processes;
- liaise with and review the performance of the external auditor, who is invited to attend Audit Committee meetings to report on audit findings and other financial and control matters; and
- ensure that information systems, processes and technology are reviewed periodically for future sustainability and the adequacy of controls.

Four Audit Committee meetings were held during the year with the Managing Director and Chief Financial Officer also in attendance. In addition to these meetings the Chairman of the Audit Committee met periodically throughout the year with both management and the external auditors.

The number of Audit Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' Report.

In relation to the financial statements for the financial year ended 30 June 2020, the Company's Managing Director and Chief Financial Officer provided the Board with declarations, that in their opinion:

- the financial records of the Company have been properly maintained;
- the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company; and
- has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The engagement partner for the Company's audit attends the AGM and is available to answer shareholder questions from shareholders relevant to the audit.

The Company makes timely and balanced disclosure

Continuous disclosure

The Company is committed to providing the market with complete and timely information about disclosure events in compliance with its continuous disclosure obligations and the Corporations Act 2001.

The Company maintains a policy that outlines the responsibilities relating to the directors, officers and employees in complying with the Company's disclosure obligations. Where any such person is of any doubt as to whether they possess information

that could be classified as market sensitive, they are required to notify the Company Secretary immediately, in the first instance, so that appropriate analysis and internal consultation can be conducted. Legal advice may also be sought from the Company's external counsel.

The Company Secretary is required to consult with the Managing Director in relation to matters brought to his or her attention for potential announcement. Where the matter is urgent and the Managing Director is not contactable, the Chairman is contacted. Where the Chairman is not contactable, the Company Secretary may decide whether an announcement is made, or whether a trading halt is warranted.

Generally, the Managing Director is ultimately responsible for decisions relating to the making of market announcements. The Company Secretary is responsible for ensuring that the Board is aware of items of business that could result in an announcement. The Board is required to authorise announcements of significance to the Company such as significant acquisitions, disposals and closures, material profit upgrades or downgrades, dividend declarations and buybacks, and any other transaction flagged by the Chairman as being fundamentally significant.

The Company Secretary is responsible for advising when announcements are not required due to either circumstances such as where the information relates to matters of supposition or is insufficiently definite, it concerns an incomplete proposal or negotiation, the information is confidential or would represent a breach of law if disclosed, and where a reasonable person would not expect the disclosure of the information.

No member of the Company shall disclose market sensitive information to any person unless they have received acknowledgement from the ASX that the information has been released to the market.

The Company respects the rights of security holders

Share trading

The Company has a Share Trading Policy for directors and employees. Subject at all times to not being in possession of inside information, directors and officers (and their related entities) may deal in Nick Scali Limited securities during the eight-week period commencing on the second business day following:

- an announcement of Nick Scali Limited's full year financial results, and
- an announcement of Nick Scali Limited's half year financial results, and

- the Annual General Meeting of Nick Scali Limited, and
- any announcement by the Company indicating expected results, provided that such a trading window does not extend beyond the end of a Nick Scali Limited financial reporting period (half year or full year); in which case the window will instead close at the end of that reporting period.

Shareholder communication

In order for investors to gain a greater understanding of the Company's business, governance practices, financial performance and future prospects, the Company schedules interactions during the year where it engages with institutional and private investors, analysts and the financial media.

These meetings and discussions must be approved by the Managing Director and are generally conducted by the Managing Director and the Chief Financial Officer. The discussions are restricted to explanations of information already within the market or which deal with non-price sensitive information. These meetings are not held within a four-week period in advance of the release of interim or full-year results.

The Company encourages shareholders to attend the Company's AGM and to send in questions prior to the AGM so that they may be responded to during the meeting. It also encourages ad hoc enquiry via email which are responded to. Furthermore, written transcripts of the meeting are made available on the Company's website.

As an accompaniment to the Annual Report and Half Year Financial Report, the Company prepares and releases to the market a results presentation which provides additional information for shareholders.

The Annual Report and announcements to the ASX are included on the Company's website.

The Company engages its share registry to manage the majority of communications with shareholders. Shareholders are encouraged to receive correspondence from the Company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders. Shareholders not already receiving information electronically can elect to do so through the share registry, Link Market Services Limited at www.linkmarketservices.com.au

The Board recognises and manages risk

Risk management

The Audit Committee recommends to the Board the policy and overall direction of risk management for

the Company. Responsibility for day to day management of risk rests with Management. The Audit Committee reports to the Board in relation to matters relevant to its responsibilities. During the reporting period, the Audit Committee, and through it the Board, received a number of reports on the operation and effectiveness of the policies, processes and controls within the Company.

The charter of the Audit Committee includes the committee's responsibilities which include procedures for general risk oversight and monitoring, internal control and risk management, risk transfer and insurance and other responsibilities. The Company does not have an internal audit function, however, internal control reviews are undertaken on a periodic basis and the results are reported to the Audit Committee.

The Audit Committee assists the Board by providing independent and objective review, advice and assistance in developing Board policy and monitoring corporate activity within the scope of its responsibility, making recommendations to the Board for resolution, and assisting the Board in identifying and managing risks.

The Audit Committee reviews the Company's risk management framework at least annually to ensure that it is still suitable to the Company's operations and objectives and that the Company is operating within the risk parameters set by the Board. Such a review was completed during the year ended 30 June 2020.

The Company is not subject to any significant environmental regulation under Australian commonwealth or state law, and does not have any material exposure to economic, environmental and social sustainability risks.

The Board ensure fair and responsible remuneration

The Remuneration and HR Committee

The Board maintains a Remuneration and Human Resources Committee, the members of which are named in the Annual Report.

The Remuneration and Human Resources Committee oversees remuneration policy and monitors remuneration outcomes to promote the

interests of shareholders by rewarding, motivating and retaining employees.

Details of the qualifications and experience of the members of the Remuneration and Human Resources Committee is detailed in the 'Information of directors' section of the Directors' Report.

The Remuneration and Human Resources Committee operates under a charter approved by the Board. The Remuneration and Human Resources Committee's responsibilities under the charter are to monitor and advise upon the following matters:

- the Company's remuneration structure including long term incentives and superannuation arrangements;
- remuneration and incentives of the Board, Managing Director and Company Secretary;
- performance and remuneration of senior executives;
- remuneration strategies, practices and disclosures generally;
- the setting of overall guidelines for Human Resources policy, within which senior management determines specific policies;
- employee share payment plans;
- recruitment, retention and termination strategies;
- management succession, capability and talent development; and
- the Remuneration Report, contained within the Directors' Report.

When considered necessary, the Remuneration and Human Resources Committee may obtain external advice from independent consultants in determining the Company's remuneration practices including remuneration levels.

The number of Remuneration and Human Resources Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' Report.

Details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' Report.

The use of derivatives or other hedging arrangements for unvested securities of the Company or vested securities of the Company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the Company, this will be disclosed