

# CORPORATE GOVERNANCE STATEMENT FY19



VILLA WORLD LIMITED ABN 38 117 546 326 ASX CODE: VLW

During FY19, Villa World Limited (Company) continued the adoption and execution of its purpose and beliefs, which has provided a beacon to guide the Company through a challenging market environment during a period in which the Company was also responding to a takeover proposal. As a key element of a broader strategy to deliver long-term shareholder value, **Helping People Reach Home** has become the very core of our 'why', our reason for existence and is supported heavily by the adoption of our customer centric strategy. Six core beliefs, support our purpose and are designed to ensure that the Company's culture is maintained and strengthened through these core behavioural commitments.

Consistent with this, the Board is committed to good corporate governance as an essential foundation of the Company's performance and sustainability. The Company's strategic framework formally recognises Environmental, Social and Governance (ESG) criteria as a major driver of the Company's future success.

The Company has assessed its governance practices against the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations 3rd Edition' (Recommendations), which set out recommended governance practices which are likely to achieve good governance outcomes for ASX listed entities in most situations. The Recommendations are not mandatory, and where the Company has not adopted a recommendation, this Statement will explain why.

The Company is also reviewing the 4th Edition of the Recommendations which come into force for financial years commencing on or after January 2020. The Company is already beginning to factor these into its governance framework including matters such as corporate conduct and culture, and reporting against environmental and social impacts.

This Statement is current as at 30 June 2019, and has been approved by the Board.

Copies of the Company's key governance documents are available in the Corporate Governance section of its website at <https://www.villaworld.com.au/investor-centre/corporate-governance>.

## 1 Lay solid foundations for management and oversight

### 1.1 Role of the Board

The Board is committed to creating shareholder value over the long term within a strong governance framework. By respecting the interests of a broad group of stakeholders, there is ultimately a convergence of interests for the benefit of all, including shareholders, customers, employees, business partners and the broader community.

The Board's role and responsibilities, its relationship with management, and the key responsibilities of the Board are set out in the Board Charter, along with delegations to senior management and certain Committees. The Board Charter was extensively reviewed and updated during the period in light of the ASX Corporate Governance Councils Principles and Recommendations 4<sup>th</sup> edition and to take into account emerging governance issues. The Board Charter specifies the matters expressly reserved to the Board, which include:

- approving the Company's purpose and setting its strategic objectives;
- approving the Company's beliefs and code of conduct;
- overseeing management's implementation of strategic objectives, and instilling the desired culture;
- approving operating budgets, forecasts, major capital expenditure, approving capital structure and dividend policies;
- overseeing the Company's accounting, management information and corporate reporting systems, and overseeing Company's disclosures;
- setting the Company's risk appetite, risk management system including a management system for workplace health and safety;
- approving the Company's remuneration framework;

- monitoring the effectiveness of the Company's governance practices;
- Board succession planning and development;
- establishing committees;
- appointing auditors;
- appointing, removing and reviewing the performance of the Chair, non-executive directors, and the MD/CEO; and
- approving the appointment of the Chief Operating Officer, Chief Financial Officer, National Sales Officer and Company Secretary.

There is a clear division between the responsibility of the Board and management. The Board has delegated responsibility for day-to-day management of the Company's business to the MD/CEO and senior management, who are required to work within authority limits and delegations.

The position description and key performance indicators (KPIs) of the Company Secretary are structured to ensure accountability directly to the Board in relation to the proper functioning of the Board and its Committees, and compliance with the governance policies and procedures.

The Board Charter is available in the Corporate Governance section of the Company's website.

## **1.2 Appointment of directors and senior management**

For all appointments of directors or senior management, procedures are in place for carrying out appropriate searches and enquiries in relation to the person's character, experience, education and history.

The Company has formal Appointment Letters with each non-executive director, and has formal Employment Agreements with each executive director and member of senior management, setting out all relevant terms of the appointment or employment.

For any director who is to be elected or re-elected in general meeting, the Company provides shareholders with relevant material (which accompanies the notice of meeting) in order to decide on the election or re-election, including qualifications, skills, experience, any adverse information revealed by the Company's checks and any material interests or positions held by the candidate. The Company also advises shareholders as to whether the candidate is considered to be an independent director, and whether the Board supports the election or re-election of the candidate.

New directors are briefed on the Company's operations and all significant issues relevant to the performance of their role, by the MD/CEO, CFO and other members of senior management.

## **1.3 Committees**

The Company has established the following specialist Committees:

- Audit and Risk Committee (Board committee);
- Remuneration and Nomination Committee (Board committee);
- Transactions Committee (Board committee);
- Debt Compliance Committee (Management committee); and
- Health, Safety and Environment Committee (Management committee).

The charters for the Audit and Risk Committee and the Remuneration and Nomination Committee are available in the Corporate Governance section of the Company's website. The Directors' Report sets out details of the directors' attendance at meetings of the Board, Audit and Risk Committee and Remuneration and Nomination Committee during the reporting period.

## **1.4 Diversity**

The Board believes that a diverse and inclusive workforce at all levels of the organisation delivers greater organisational performance and effectiveness, and continues to foster a corporate culture that embraces all aspects of equality and diversity. The Company's Equality and Diversity Policy is available on the Corporate Governance section of the Company's website. The Board has committed to measurable gender diversity targets that are monitored, and reports on progress each year.

The gender diversity objectives identified in the table below have been adopted by the Board for the period FY19 to FY21, with the status of these objectives shown as at 30 June 2019.

Strategic Goal	Objective	Tracking
Diverse talent pool	Increase the number of females hired in those areas where current female representation is <35% by actively seeking female applicants for the role and at least one female on the recruitment short list where possible.	<p>Recruitment policies and other relevant related policies are designed to further support this objective.</p> <p>There continues to be a notable increase of female participation in the market in relation to previously male dominated roles in the construction and development industry. The types of roles that continue to be a particular focus for increased female participation are:</p> <ul style="list-style-type: none"> <li>• Development and Project Management</li> <li>• Sales Management</li> <li>• Design</li> <li>• Estimating</li> </ul> <p>In addition, a number of the Company's subcontractors continue to increase their female trade representation, across all states.</p>
Leadership Development	Equal representation of males and females receiving opportunities for development.	All staff, regardless of gender, are offered equal development training on a regular basis. FY19 saw the introduction of a Leadership Development Framework to support the company's purpose-led, customer centric strategy of Helping People Reach Home. This program will be implemented throughout the business with equal opportunity for all staff.
Board Representation	Adopt a Board gender equality target of 40/40/20, representing 40% female, 40% male and 20% of either gender representation by 2021.	<p>The Company continues to make progress towards this new target.</p> <p>In August 2018, the Board appointed a second female director with diverse expertise and experience consistent with the Board's skills matrix. This resulted in 40% female representation on the Board (50% of non-executive directors).</p> <p>However, since the resignation of another female director in May 2019, representation is at 20% (33% of non-executive directors) as at 30 June 2019.</p>
Leadership Representation	Adopt a Leadership gender equality target of 40/40/20, representing 40% female, 40% male and 20% of either gender representation by 2021.	Female representation at leadership level was constant at 37.5% during the period. The Company will continue to make progress towards the new target.

Strategic Goal	Objective	Tracking
Promote a diverse and inclusive workplace	To build and leverage a diverse and inclusive workforce by building leadership capability, capacity and awareness across all levels, supporting the company's purpose of "Helping People Reach Home".	<p>There is equal gender representation for Key Management Personnel.</p> <p>A Reconciliation Action Plan was developed during the period, and is awaiting final approval and launch. This supports the Company's desire to develop respectful relationships and create meaningful opportunities with Aboriginal and Torres Strait Islander peoples.</p> <p>Mental health training was provided across the entire company to raise awareness of this important issue, and to assist staff in providing support to their colleagues where needed.</p> <p>The leadership development framework introduced in FY19 and to be further implemented throughout the business, includes components relating to inclusiveness, diversity of thinking and experiences, and unconscious bias.</p>

Current gender balance across the Company's workforce as at 30 June 2019 is as follows:

	Female	Male
KMPs (namely MD/CEO, CFO, COO, GM Sales & Marketing )	50%	50%
Senior Managers	20%	80%
All employees	56%	44%

### 1.5 Evaluation of Board and Committees

The Board reviews its performance on an annual basis. The review process is agreed by the Board and conducted using a questionnaire, with a written report summarising the results and recommendations presented to the Board and discussed by both the Board and the Remuneration and Nomination Committee. A review of the Board's performance for the reporting period was undertaken in accordance with this process, and the results of the evaluation were considered by the Board and the Remuneration and Nomination Committee.

During the year, the Board also conducted a number of strategy sessions together with senior management, which included assessing the Board's performance and interaction with management, and identifying opportunities for efficiencies and improvements.

In addition, the Board engaged an external consultant to undertake a formal performance evaluation of individual directors, and to assess the performance of the Board and its relevant committees. The results have been considered by the Remuneration and Nomination Committee, with opportunities for improvement having been identified and a process put in place for advancing and monitoring these development opportunities.

### 1.6 Evaluation of Senior Executives

The Company has established a formal "My Success Plan" process for all staff, including senior executives. Under the My Success Plan, KPIs are determined at the commencement of each financial year taking into account the Strategic and Operational Plans for the Company's business units and input from the Board. Performance evaluations take place throughout each year.

The MD/CEO reviews the performance of each senior executive and other senior managers, and reports to the Board on the outcome of those reviews. The performance of the MD/CEO is reviewed by the non-executive directors.

Performance evaluations of all senior executives were undertaken during the year in accordance with the above processes.

## 2 Structure the Board to add value

### 2.1 Composition of the Board

The names of the directors who held office during the year are detailed in the Directors' Report, together with details of each director's length of service, skills, experience and expertise and whether the director is considered to be independent. Changes in Board membership are also set out in the Directors' Report.

The Company has adopted a board skills matrix, as disclosed below.

The below table identifies 13 core skills adopted by the Board as being desirable to enable delivery of the Company's overall strategy and governance objectives.

Desired Skills	Board
<b>Total Directors</b>	4
<b>Executive Leadership</b> Senior executive level or directorship experience (including human capital planning).	
<b>Board Experience</b> Experience as a board member or member of a governance body.	
<b>Financial Performance</b> Qualifications and experience in financial accounting and reporting, oversee corporate finance, risk and internal controls.	
<b>People and Culture</b> Experience in the oversight of effective strategic staffing matters, sustaining a positive and high performing organisational culture.	
<b>Governance &amp; Risk</b> Experience with sophisticated governance structures and ability to monitor risk and compliance management frameworks and systems.	
<b>Strategy</b> Strategically identifying, critically assessing, developing, implementing and challenging a plan of action designed to achieve long-term goals.	
<b>Property Development</b> Experience in property development and building construction.	
<b>Legal</b> Experience in overseeing compliance with property and governance legal duties and responsibilities.	

Desired Skills	Board
<p style="text-align: center;"><b>Capital Management</b></p> <p>Experience in capital management strategies, including debt financing and capital raisings.</p>	
<p style="text-align: center;"><b>Information Technology and Digital Strategy</b></p> <p>Knowledge and experience in the strategic use of information management and technology, including digital technologies.</p>	
<p style="text-align: center;"><b>International Best Practise</b></p> <p>A global view and insights into best practise in urban design innovation and general business practises.</p>	
<p style="text-align: center;"><b>Brand Awareness and Strategy</b></p> <p>Experience and knowledge in strategically guiding a business in the implementation of a brand strategy that improves market perception and utilisation of a company's current and future products and services.</p>	
<p style="text-align: center;"><b>Purposeful Corporate Social Responsibility</b></p> <p>Ability to interpret and understand a broader purpose-led corporate social responsibility approach that helps a company drive a self-regulating business model to be socially accountable to itself, its stakeholders, and the public.</p>	

The Board considers that collectively all Directors have a broad range of knowledge, skills and expertise relevant to direct the Company's strategic objectives, as identified above. Additional supporting skills and commentary are as follows:

- Information Technology and Digital Strategy – This key area of the business continues to support ongoing business transformation to ensure continuous improvement and streamlining of operational efficiency. The utilisation of both internal and external expertise continues to promote greater breadth of perspective and diversity of thought when formulating IT strategy, operations and project alignment to the overall company's objectives;
- Environmental, Social, Governance (ESG) – The Board recognises this area as a key strategic priority and continues to believe there is greater traction to be gained from having an executive within the business work with the appropriate external experts to further develop this strategy;
- Workplace Health & Safety – While WH&S does not form part of the skills matrix above, the Board leads the Company's Health, Safety and Environment (HSE) culture. Directors understand their own HSE obligations, and work collaboratively with the appropriate internal and external personnel to ensure their adherence to the Villa World HSE Due Diligence Framework. That Framework sets out the Company's approach to ensuring a healthy and safe work environment for our employees and stakeholders, including subcontractors and suppliers. This commitment also extends to managing any adverse impacts that the Company's business may have on the local community or environment.

In addition to the collective skills identified above, brand strategy and customer centricity continue to be a key focus for the Board in delivering the Company's strategic objectives and creating long-term shareholder value. The Board encourages different generational thinking around digital engagement opportunities and broader corporate social responsibility initiatives, in order to remain competitive.

Directors are expected to maintain and enhance their skills and knowledge by participating in professional development activities.

## 2.2 Director Independence

The Board recognises that independent directors are important in assuring shareholders that the Board is able to act in the best interests of the Company, and independently of management. The Board Charter sets out the Board's definition of an independent director. The independence of directors is reviewed annually. A director will be characterised as an independent director if he/she is free of any interest, position, affiliation 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 as a whole.

In assessing the independent status of a non-executive director, the Board considers the matters set out in Recommendation 2.3 which might cause doubts about independence, and other facts, information and circumstances that the Board considers relevant. For the whole of the reporting period, the Board consisted of a majority of independent directors.

For the whole of the reporting period, Mark Jewell was the independent Chair of the Board and there was a separation of the roles of Chair and MD/CEO.

## 2.3 Remuneration and Nomination Committee

During the reporting period, the Remuneration and Nomination Committee comprised three members all of whom were independent directors including an independent director as Chair.

The Remuneration and Nomination Committee Charter, which was updated during the period, is available in the Corporate Governance section of the Company's website. Membership of the Committee, details of the Committee's meetings and attendance of the members at those meetings are set out in the Directors' Report.

## 3 Act ethically and responsibly

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### 3.1 Company purposes and beliefs

The Company's purpose is **Helping People Reach Home**.

"Home is more than a place...it's a feeling, a sense of belonging. It's where the heart is."

This means ensuring our people feel "at home" by helping them develop to their full potential while providing a safe, healthy and happy workplace.

It means helping our customers find their dream home and making the process of buying that home easy.

We recognise the broader societal contribution we can make to better living, for our community.

We are proud of the partnerships we have forged with stakeholders who share our beliefs and feel at home working with us.

Our core beliefs are:

- Put people first
- Do it as one team
- We do what we say
- Get it done
- Enjoy the ride
- Make it easy

The Company's purpose and beliefs underscore its commitment to maintaining and strengthening a culture and reputation for acting fairly and ethically.

### 3.2 Code of Conduct

The Company has adopted a Directors Code of Conduct and an Employee Code of Conduct. They are both available in the Corporate Governance section of the Company's website. The Codes of Conduct are part of a broad framework of other corporate policies, which apply to directors, employees and those working on the behalf of the Company.

These policies set out the parameters for ethical behaviour and business practices expected of those engaging in activity on the Company's behalf. They detail standards and expectations relating to:

- stakeholders maintaining high standards of service and a commitment to fair value;
- the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- conflicts of interest and prevention of employees taking advantage of property, information or position for personal gain; and
- reporting of unethical behaviour.

During FY20, the Company will be updating certain of these policies to take into account the draft 4th Edition Recommendations, as well as new laws dealing with whistleblowing and human rights.

### **3.3 Trading in Company Shares**

Directors and employees are allowed to acquire shares in the Company if they comply with the provisions of the Securities Dealing Policy, which was updated during the period.

The policy summarises the insider trading provisions contained in the Corporations Act to be considered at any time a director or employee is considering trading in Company shares. In addition, the policy provides for designated trading windows, requirements for pre-clearance at certain times, exclusions on other types of dealings (including short-term trading), and an obligation on directors and employees to disclose all trades in the Company's shares.

The Securities Dealing Policy is available in the Corporate Governance section of the Company's website.

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

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### **4.1 Audit and Risk Committee**

The Board has established an Audit and Risk Committee to review and make recommendations on corporate reporting and audit matters. The Audit and Risk Committee Charter, which was updated during the period, is available in the Corporate Governance section of the Company's website. Membership of the Audit and Risk Committee (including relevant qualifications and experience of members), and changes which occurred during the financial year, are set out in the Directors' Report.

For the whole of the reporting period, the Audit and Risk Committee comprised three members all of whom were independent non-executive directors.

Details of the Committee's meetings and attendance of the members at those meetings are set out in the Directors' Report.

### **4.2 CEO and CFO declarations**

Prior to approving the Company's financial statements, the Board requires declarations from the MD/CEO and CFO to the effect that (amongst other things) the Company's financial records have been properly maintained, the financial statements give a true and fair view of the Company's position, and that opinion is based on a sound system of risk management and internal control. These declarations are presented to the Board at or prior to the Board meeting at which the financial statements are considered for approval.

### **4.3 External Auditor**

The Audit and Risk Committee meets with the external auditor at least once each year to review the adequacy of external audit arrangements. The external auditor has a direct line of communication at any time to either the Chairman of the Audit and Risk Committee or the Chairman of the Board.

If requested by the external auditor, the non-executive directors shall meet with the external auditor in the absence of management to discuss potential issues associated with management controls, the preparation and audit of the financial reports and the performance of management in relation to such issues.

The auditor attends and is available to answer questions at the Company's AGM.

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

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The Company has a Continuous Disclosure Policy designed to ensure compliance with Listing Rule 3.1. As a result, shareholders and the market are provided with material information in a timely manner.

It is the Company's policy that any price-sensitive material for public announcement will be reviewed before issue by the MD/CEO, CFO and General Counsel and approved by the Board, will be expressed in a clear and objective manner, and lodged with the ASX in accordance with the relevant requirements. Announcements are also published on the Company's website.

The Continuous Disclosure Policy is available in the Corporate Governance section of the Company's website.

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

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The Company is committed to keeping shareholders fully informed of its significant activities and governance.

Information is communicated to shareholders through the annual report, half-yearly report, investor updates, announcements made to the ASX, the AGM and the Company's website.

The Company's website has an Investor Centre which includes links to directors and senior management, governance documents, annual reports, dividend information, key dates, media releases, ASX announcements and share price.

Shareholders are encouraged to attend the AGM, and are provided with adequate opportunity prior to and at the AGM to raise questions, and to raise items of general business at the AGM. The Company has a dedicated email address for shareholders to raise queries or concerns, and the Company promptly responds to any issues raised by shareholders from time to time.

At the 2017 AGM, the Company introduced voting by way of poll rather than on a show of hands, to better reflect the interests of all shareholders.

There is a departure from Recommendation 6.3, in that apart from the matters referred to above, the Company does not have formal policies and processes to encourage participation at meetings of shareholders. Given the relatively small number of shareholders, the Company does not presently consider it necessary to implement processes such as webcasting or multiple venues for general meetings.

The Company has provided shareholders with the option to receive and return documents from and to the Company and its share registry by electronic means, including by email and online.

## **7 Recognise and manage risk**

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The Audit and Risk Committee oversees the Company's risk management framework. The Audit and Risk Committee Charter, which was updated during the period, is available in the Corporate Governance section of the Company's website.

The members of the Audit and Risk Committee, and changes to membership during the financial year, are set out in section 4.1 of this Statement.

For the whole of the reporting period, the Audit and Risk Committee comprised three members all of whom were independent non-executive directors.

Details of the Committee's meetings and attendance of the members at those meetings are set out in the Directors' Report.

The Company does not have a formal internal audit function. Risk management and internal control processes are monitored by the Audit and Risk Committee, the Debt Compliance Committee, the Health, Safety and Environment Committee and the Board.

The Company maintains a Risk Register, with certain priority risk areas considered by the Board at every Board meeting. The Board has adopted a Risk Appetite Statement which is available in the Corporate Governance section of the Company's website.

During the period, the Company undertook a risk assessment workshop with senior management, and is now working towards updating the Risk Register. In conjunction with that process, external consultants were engaged to assist the Company in developing a Crisis Response Manual which is nearing completion.

The Company considers that it has appropriately managed and mitigated any material exposure to economic, environmental or sustainability risks. The Company is satisfied that there are appropriate controls in place to adequately mitigate the possibility that environmental and social risks could substantively impact the Company's ability to create or preserve shareholder value.

The Company's overall internal control framework incorporates policies and procedures that can be described under the following headings:

## **7.1 Financial reporting**

A comprehensive budgeting process is undertaken in conjunction with the Board. Monthly financial reporting is provided to the Board, and there is an ongoing review of forecasts and reporting on key metrics and variables.

## **7.2 Financial reporting - MD/CEO and CFO certifications**

- The Board has received declarations from the MD/CEO and CFO in connection with the financial statements for the Group for the year ended 30 June 2019. It has also received assurances from the MD/CEO and CFO that their declarations (provided in accordance with section 295A of the Corporations Act) as to the integrity of the financial statements are founded on a sound system of risk management and internal control and that system is operating effectively in all material respects in relation to financial reporting risks.
- Senior Management has also reported to the Board on the effectiveness of the management of material business risks for the year ended 30 June 2019.

## **7.3 Investment appraisal and financial performance monitoring**

- There are Board defined guidelines for capital expenditure, with detailed appraisal and review procedures, defined delegated authority limits, including Board approval requirements for non-operational expenditure.
- Quarterly project reviews are undertaken with key executives, including the CFO, State Managers and senior Development Managers, to monitor performance and key forecast assumptions and risks at an individual project level, and report changes in key assumptions of a material nature as part of monthly financial reporting to the Board.

## **7.4 Financing Compliance**

A Debt Compliance Committee comprising the General Counsel, CFO and other managers oversees the compliance reporting systems relating to the Company's debt facilities. The Committee meets quarterly, with any risk areas reported to the Board.

Any material financial compliance matters are also included in the CFO's monthly report to the Board.

## **7.5 Tax risk**

The Company has adopted a Tax Policy which sets out a framework for the management and governance of tax risk.

## **7.6 Corporate responsibility, health, safety and environment**

- A Health, Safety and Environment Committee, comprising senior managers including a National HSE Manager, monitors compliance with work health safety and environmental regulations across the Company's operations. The Committee meets at least quarterly, with any risk areas reported to the Board. During the period, a monthly HSE Bulletin was circulated to all staff. In May 2019, the National HSE Manager resigned. The Company is in the process of replacing this role, and in the interim has engaged external advisors to assist with overall HSE management.
- The Company has implemented a HSE Management System (including a HSE Due Diligence Framework for the Company's officers), and has obtained accreditation of this system under the relevant Australian and International Standards for Safety and Environment.
- The Company's Health, Safety and Environment Management Policy is overseen by the Chief Operating Officer and National Building, with regular reporting to the Board in relation to compliance with workplace/occupational and environmental legislation.
- The Company has in place a Health and Wellbeing Policy as well as a Working Alone Guidance Note.

The Audit and Risk Committee is satisfied that the Company's risk management framework is sound.



## **8 Remunerate fairly and responsibly**

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During the reporting period there was a Remuneration and Nomination Committee, details of which are provided in section 2.3 of this Statement.

The processes for setting the level and composition of remuneration for directors and senior executives are set out in the Remuneration Report which forms part of the Directors' Report.

Non-executive directors are not granted equity, nor are they entitled to receive bonus payments. Non-executive directors are not entitled to receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. There are also no retirement benefit plans available to non-executive directors.

The Company has a Long Term Incentive Plan previously approved by shareholders. It includes prohibitions on participants entering into any arrangement to hedge their economic risk of participating in the Plan.

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