

**CORPORATE
GOVERNANCE,
ENVIRONMENTAL
SOCIAL STATEMENT
AND FINANCIAL
REPORT**

FINANCIAL PERIOD ENDED 1 JULY 2018

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

The Company and the Board have set and maintained high standards of corporate governance. The Company has complied with the Principles and Recommendations released by the ASX Corporate Governance Council in March 2014 and any subsequent amendments.

A summary of the Company's main corporate governance practices are outlined below and were in place for the entire period, unless otherwise stated. This statement is accurate and is up to date as at 22 August 2018 and has been approved by the Board. A full copy of the Company's corporate governance, environmental and social policies and charters can be found in the investors section of the Company's website at www.rejectshop.com.au

THE BOARD OF DIRECTORS

The Board operates in accordance with the Board Charter, which establishes the composition of the Board and its overall responsibilities, as summarised below:

Composition of the Board

Under the Company's Constitution and the Board Charter the following criteria must always be met:

- The Board must be comprised of at least 3 directors;
- The Board must be comprised of a majority of independent directors;
- The Chairman must be an independent director; and
- The Managing Director and the Chairman are separate roles and undertaken by separate people.

There are currently three non-executive directors and one executive director. Each non-executive director is individually assessed, on an annual basis, for independence based on the following criteria:

- They must not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- They have not, within the last three years, been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- They have not, within the last three years, been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with a service provider;
- They must not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- They must have no material contractual relationship with the Company or another group member other than as a director of the Company;
- They have not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company; and
- They must be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company.

Materiality is assessed on both qualitative and quantitative bases.

The Managing Director position is not considered an independent director based on the above criteria. All current non-executive directors satisfy all criteria above and are considered independent directors.

The directors considered as independent are as follows:

William J Stevens

Kevin Elkington

Denis R Westhorpe
(Deceased 2 April 2018)

Michele Teague
(Appointed 18 September 2017)

All directors have entered into written contracts of employment.

Details of each directors' experience is contained on page 6 and 7 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 17 in this annual report.

Responsibilities of the Board

The Board delegates responsibility for the day-to-day management of the Company to the Managing Director and senior management, however retains responsibility for:

- Establishing and reviewing the implementation of strategy;
- Monitoring senior management's performance and approving remuneration;
- Ensuring appropriate resources are available to achieve the Company's objectives; and
- Promoting best practice corporate governance, including overseeing the Company's risk management policies.

To enable the directors to fulfil their responsibilities, each director may, at the Company's expense and after consultation with the Chairman, seek independent professional advice.

To assist in meeting its responsibilities, the Board has established the Audit and Risk Committee and Remuneration Committee, each with their own separate charter and structure. Significant matters arising from these Committee meetings are tabled at the subsequent Board meeting. Having regard to the size of the Board, it has not been considered necessary to appoint a separate Nomination Committee at this time.

BOARD SKILLS AND EXPERIENCE MATRIX

To assist in identifying areas of focus and maintaining an appropriate and diverse mix, the Board has developed a 'Board Skills and Experience Matrix' ('Board Matrix') which is represented in the table below. The Company's Board Matrix sets out the mix of skills, experience and expertise that the Board currently has. The Board benefits from the combination of Director's individual skills, experience and expertise in the areas identified below:

TRS – Board Skills and Experience Matrix (out of 4 directors)

Legal, Governance & Compliance

Legal	2
Corporate Governance	4
Compliance	3

Operations

Marketing	2
Retail, buying, sales & distribution	3
General management experience	4
Business Development	3
Strategy	4
CEO	2
Property/ store development	2
Supply chain/ off shore procurement	0

Finance and Risk

Accounting	1
Finance	1
OH&S/ Risk Management	4

People

Human Resources	4
Remuneration	4

Technology

Technology	1
Digital	2

Rotation of Directors

Under the Company's constitution at least one third of the Company's directors must retire at each annual general meeting, as well as any director who has served for more than three years since their last election, excluding the Managing Director.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates under the Audit and Risk Committee Charter which outlines the composition and responsibilities of the Audit and Risk Committee as outlined below:

Composition of the Audit and Risk Committee

The Audit and Risk Committee Charter, in line with the recommendations outlined by the Corporate Governance Council, states that the Committee should consist of at least three members, all of whom are non-executive directors and the majority being independent directors. The chairperson must be an independent director and not the Chairman of the Board. In addition, the members of the Committee must have a working familiarity with basic finance and accounting practices, and at least one member of the Committee must have accounting or related financial management expertise. The Audit and Risk Committee currently comprises the following members:

<i>Kevin J Elkington (Chairman)</i>
<i>William J Stevens</i>
<i>Michele Teague</i>

Role of the Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in:

- Overseeing the reliability and integrity of financial and asset management;
- Ensuring compliance with the Company's accounting policies, financial reporting and disclosure practices;
- Monitoring internal controls including financial systems integrity and risk management; and
- Maintaining the relationship and reviewing the work of the external auditors.

Responsibilities of the Audit and Risk Committee

- Reviewing the integrity of accounting principles adopted by management in the presentation of financial reports;
- Regularly reviewing, assessing and updating internal controls, risk management and regulatory compliance;
- Reviewing, monitoring and assessing related party transactions; and
- Monitoring the effectiveness and independence of the external auditor.

Role of the External Auditor

PricewaterhouseCoopers was appointed auditor effective 2 July 2001, and provides an annual declaration of their independence to the Audit and Risk Committee. Whilst not a member of the Audit and Risk Committee, they are invited to attend meetings. In addition, they will attend the Annual General Meeting to answer shareholder questions with regard to the conduct of their audit.

RISK MANAGEMENT AND ASSESSMENT

The Board has delegated to the Audit and Risk Committee the responsibility for overseeing the implementation of certain policies and procedures aimed at ensuring that the Company conducts its operations in a manner that manages risk to protect its people, its customers, the environment, Company assets and reputation as well as to realise business opportunities.

Risk identification and management is a key focus of the General Management team. Accordingly, the General Management team have designed and implemented a risk management and internal control system to manage the Company's material risks, with a comprehensive analysis of the material risks being prepared for review by the Audit and Risk Committee at the end of each half.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

In addition, the Company's Internal Audit and Loss Prevention, and Product Compliance functions provide ongoing assurance to the Board and management that established procedures and requirements are being met.

The Chief Executive Officer and the Chief Financial Officer have made the following certifications to the Board:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards; and
- The above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board, and ensures that the Company's risk management and internal compliance is operating efficiently and effectively in all material respects.

To enable these certifications to be made, all functional General Managers have provided similar certifications to the Chief Executive Officer and Chief Financial Officer.

CONTINUOUS DISCLOSURE POLICY

The Company has a Continuous Disclosure Policy which establishes the framework by which the Company will satisfy its continuous disclosure obligations as required by the Listing Rules of the Australian Securities Exchange and the Corporations Act. This policy ensures information is disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company.

The Company has a Shareholder Communication Policy which recognises the right of Shareholders to be informed of matters, in addition to those required by law, which affect their investment. In conjunction with the Company's Continuous Disclosure Policy, this policy ensures that Shareholder and financial markets are provided with information about the Company's activities in a balanced and understandable way. In addition the Company is committed to communicating effectively with Shareholders and making it easier for Shareholders to communicate with the Company.

Link Market Services (our Registrar) provide the ability to have these services provided electronically.

Annual and half year reports, media and analysts' presentations, press releases together with the broader continuous disclosure policy are available on the Company's website.

CODE OF CONDUCT

The Company has an established corporate code of conduct which forms the basis for a shared view of the Company, its mission and its ethical standards and code of conduct by senior management and employees. After approval by the Board this code has been adopted by all senior executives. Included in the code of conduct is an encouragement to all employees to report any breaches of the code to senior management or Human Resources. A more formalised whistle-blower's policy is being developed.

The Company has a Share Trading Policy which restricts the trading of securities by directors and employees to specified windows during the period, namely between 24 hours and 30 working days after announcement of the Company's half yearly results, and between 24 hours after the announcement of the Company's period-end result and 30 working days after the close of the Company's annual general meeting. In addition, with prior approval of the Chairman, a trading window may be opened for a period commencing 24 hours after and not exceeding 30 working days after any formal announcement to the Australian Stock Exchange.

DIVERSITY POLICY

The Company recognises the importance of diversity and values the competitive advantage that is gained from a diverse workforce at all levels of the organisation. Accordingly the Company has developed a Diversity Policy which focuses on respecting the unique differences that individuals can bring to the business. This policy ensures the Company will continue to foster an environment that respects differences in age, gender, ethnicity, religion, sexual orientation and cultural background. The Company will continue to ensure that all employment opportunities are filled and remunerated on the basis of merit and performance and not due to any known bias.

The Company is committed to building a diverse workforce, with a particular focus on gender and gender equality, and to support this focus, the following objectives have been set:

- Communication of the Company's Gender Diversity Statement to internal and external stakeholders;
- Review the means by which the Company recruits, develops and retains females across the organisation;
- Continue to build from our current workplace flexibility options including job sharing and/or part-time employment;
- Conduct and report a gender audit to measure progress from baseline data and identify and review any specific areas of gender inequality; and
- Report to the Board on a twice yearly basis.

In accordance with this policy the following table represents the level of gender diversity within the Company and changes from the prior year.

	NO OF EMPLOYEES - FEMALE 1 JULY 2018	NO OF EMPLOYEES - TOTAL 1 JULY 2018	% OF FEMALES	NO OF EMPLOYEES - FEMALE 2 JULY 2017	NO OF EMPLOYEES - TOTAL 2 JULY 2017	% OF FEMALES
Board/ CEO	1	4	25.0%	0	4	0.0%
Senior Executives	1	7	14.3%	1	8	12.5%
Middle Management	4	25	16.0%	9	33	27.3%
Store Managers	227	380	59.7%	214	374	57.2%
All Team Members	3,523	5,296	66.5%	3,536	5,430	65.1%

Senior Executives includes the General Management team reporting to the Managing Director (excludes Board & Managing Director). Middle Management includes Management reporting to the General Management team or equivalent (excludes Board & Senior Executives). All Team Members as included in the table above includes all employees of The Reject Shop with the exception of the Board.

On the 12th of June 2018, The Reject Shop lodged its annual public report with the Workplace Gender Equality Agency. A copy of this report can be found on the Company's website at www.rejectshop.com.au.

REMUNERATION COMMITTEE

The Remuneration Committee Charter outlines the composition and responsibilities of the Remuneration Committee.

Composition of the Remuneration Committee

Under the Remuneration Charter, and consistent with the Corporate Governance Council recommendations, the Committee consists of at least three members, a majority of which must be non-executive directors, with the chairperson of the Committee being a non-executive director.

Each member of the Committee must also be independent of the management of the Company and free from any relationship that, in the business judgement of the Board, would interfere with the exercise of their independent judgement as a member of the Committee.

The Remuneration Committee currently comprises the following members:

William J Stevens (Chairman)

Kevin J Elkington

Michele Teague

Role of the Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board regarding:

- The remuneration and appointment of Senior Executives and Non-Executive Directors;
- Policies for remuneration and compensation programs of the Company; and
- All equity based compensation plans.

To adequately fulfil their role, the Remuneration Committee obtains and considers all relevant advice and information including industry trends in remuneration policy, market rates for the positions of Managing Director, other senior executives and non-executive directors, and movements in general wage rates.

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 62 to 64 of this annual report.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

ENVIRONMENTAL AND SOCIAL STATEMENT

The Company is committed to being responsible for the impact it has on our environment and also wherever possible engaging with our community, to research and implement positive environmental outcomes.

The Company is committed to reducing our environmental footprint and our greenhouse gas emissions. Our focus is on the provision of a more sustainable and holistic approach to energy usage, waste disposal, recycling and the positive education of our team members in relation to the environment.

ENERGY EFFICIENCY INITIATIVES

Lighting

In mid-2015, with increasing electricity costs and usage in its store network, TRS commenced a multi-million investment into an energy saving project to insure itself against ongoing price rises and to bring down operating costs; consistent with our objective of reducing our environmental footprint.

As of 30 June 2018 we have installed high-efficiency LED lighting and automated energy management systems into 268 stores in order to regulate lighting levels, run times and air conditioning usage. In addition, the energy management system will allow TRS to individually control power usage at each store and therefore manage its energy costs. This energy reduction equipment now forms part of our standard fitout, and will be rolled out to all new stores in future.

In addition TRS are also actively managing supply contracts with energy retailers on an annual basis to ensure we are obtaining the lowest unit tariff charges to support the above investment.

Air Conditioning

The Company continues with a stringent maintenance plan to ensure all equipment is running efficiently and to Australian Standards. The Company also continues to work with Landlords to maximise servicing within any contractual agreements. Integration of company-controlled air-conditioning units with the nationwide electricity optimisation program is also driving some significant benefits.

Reducing Waste and Recycling

The Company is increasing its engagement with its contracted waste company in order to improve its recycling capabilities. Increased plastic and cardboard recycling across the store network has been a focus. Further reductions in the usage of plastic is also being sought further up the supply chain.

Sustainable Awareness and Fit-out

The Company continues to review more sustainable material options for use in building, fitting out and refurbishing our stores. Multiple programs to increase the efficiency of stock delivery and reducing packaging wastage are currently being reviewed.

COMMUNITY ENGAGEMENT

The Reject Shop Charity Foundation

The Reject Shop Foundation is a not-for-profit foundation committed to helping kids in need, by contributing funds to Australian programs that support kids at a time they need it most, as set out on page 10.

Local Community Support

The Company allocates funds from its annual budgets which are used to support local charities and sporting organisations, either by way of cash or gift card donations.

ETHICAL SOURCING POLICY

The Company has developed an Ethical Sourcing Policy which is available within the Investors (Corporate Governance) Section of the Company website (www.rejectshop.com.au).

The policy incorporates both environmental and socioeconomic criteria for all imported products sourced directly or through agents. The policy encourages trade partners and agents to improve their social and environmental practices, and protect our corporate reputation and that of our individual businesses and brands.