



McPHERSON'S

CORPORATE GOVERNANCE STATEMENT

2016

Approved: 20 September 2016

Corporate Governance Statement

This statement outlines the key aspects of the McPherson's Limited Group's ("Company" or "Group") corporate governance framework and main governance practices. The Board of Directors is committed to achieving and demonstrating the highest standards of corporate governance. This is considered to be essential for the long term performance and sustainability of the Group, and to protect and enhance the interests of shareholders and other key stakeholders.

The Board regularly reviews the Group's governance arrangements, as well as developments in market practice, expectations and regulation. Subject to the exceptions as noted in this statement, the Group's corporate governance arrangements conform to the Corporate Governance Principles and Recommendations (3rd Edition) issued by the ASX Corporate Governance Council ("ASX Corporate Governance Principles"). The exceptions relate to the composition of the Board's Audit Risk Management and Compliance Committee and the Nomination and Remuneration Committee in the early part of the 2016 financial year as a consequence of a temporary Board vacancy. The exceptions were remedied soon after an additional non-executive director was appointed.

This Corporate Governance Statement has been approved by the Board and is current as at 20 September 2016. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2016, and currently. Copies or summaries of the governance documents referred to in this statement can be found in the Corporate Governance section of the McPherson's Limited website which is located at the following address:

www.mcphersons.com.au/corporate-governance

Principle 1: Lay solid foundations for management and oversight

The Board is ultimately responsible for the sound and prudent management of the Group. The Board's role is to represent shareholders, to account for the Company's performance and deliver long-term shareholder value. The Board is therefore responsible for strategic direction, for monitoring and guiding management, for overseeing effective governance and for ensuring the Group's long-term financial security.

The Board directs management in the execution of business objectives, strategies and financial performance. Other than the responsibilities specifically reserved for the Board and its committees in their respective charters, responsibility for management of the Group's day-to-day business activities is delegated to the Managing Director who is accountable to the Board. The Managing Director is supported by the senior leadership team who report to the Managing Director.

The Board's role is documented in a Board Charter which sets out its main responsibilities and a range of related governance matters. The powers which are specifically reserved for the Board and the matters which require specific Board approval are set out in a Retained and Delegated Authorities of the Board document. The Board has an Audit Risk Management and Compliance Committee and a Nomination and Remuneration Committee to assist in the execution of its responsibilities. An outline of the Board's key responsibilities is presented below:

- Providing leadership and setting the strategic objectives of the Group;
- Monitoring management's implementation of financial and other strategic objectives;
- Appointing and where necessary removing the Chairman;

- Appointing and where necessary removing the Managing Director;
- Overseeing the integrity of the Group's accounting and corporate reporting systems, including the external audit;
- Approving operating budgets, major capital expenditure, acquisitions and divestments;
- Monitoring capital management;
- Overseeing and approval of the risk, control and accountability systems;
- Overseeing the Company's process for making timely and balanced disclosure of all material information reasonably expected to have a material effect on the price or value of the Company's securities;
- Monitoring compliance with legal, constitutional and ethical standards;
- Monitoring the effectiveness of the Group's governance practices;
- Ratifying the appointment of, and where necessary, the removal of the Chief Financial Officer and the Company Secretary;
- Monitoring and evaluating the performance of management;
- Approving the Group's remuneration framework;
- Reviewing succession planning and management development; and
- Assessing the Board's own performance.

Selection and Election of Directors

When a Board vacancy exists, or where it is considered that the Group would benefit from the services of a new Director with particular skills, the Nomination and Remuneration Committee selects a panel of candidates with the appropriate expertise and experience. The Board then appoints the most suitable candidate who must stand for election at the next Annual General Meeting of shareholders. Prior to appointing a new Director, or putting forward to shareholders a new candidate for election as a Director, the Group ensures appropriate checks are undertaken including as to the person's character, experience, education, and performing searches for any criminal or bankruptcy history.

All material information known to the Group that is relevant to a decision on whether or not to elect or re-elect a Director is included in the relevant meeting materials provided to shareholders.

The Group has formal written agreements in place with each Director and senior executive. These agreements set out the terms and conditions of their appointment. With respect to Directors the terms and conditions of the appointment and retirement of Directors are set out in an agreement between the Company and Directors (called a "Director's Deed"). The Director's Deed also includes provisions relating to Directors' other rights and obligations.

Non-executive Directors are also required to sign a formal letter of appointment which sets out further details relating to their engagement and a number of additional obligations. Details regarding contractual arrangements with the Managing Director and other key management personnel are included in the Remuneration Report in the Group's 2016 Annual Report.

Company secretary

The Group's company secretary is accountable directly to the Board, through the chairman, on all matters to do with the proper functioning of the Board.

Diversity

The Group values diversity and recognises the benefits it can bring to the Group's ability to achieve its goals. Accordingly, the Group has established a Diversity Policy which reflects the Group's commitment to workplace diversity.

McPherson's believes that promoting a diverse workforce:

- Enables McPherson's to achieve improved outcomes by benefiting from the differing perspectives and expertise that people from diverse backgrounds bring to their roles;
- Better represents the diversity of McPherson's stakeholders; and
- Is consistent with McPherson's broader corporate governance principles, specifically as set out in McPherson's Ethics and Responsible Business Conduct Policy and McPherson's Equal Employment Opportunity Policy.

The Group promotes a diverse workforce by aiming to ensure that all employees and applicants for employment are fairly considered according to their skills, qualifications, abilities and aptitudes without regard to factors that are irrelevant to the person's skill or ability to fulfil the inherent job requirements.

The Group has adopted the following initiatives to specifically assist with improving gender diversity:

- Mentoring programs and professional development programs targeted at female employees to prepare them for management positions;
- Promoting a safe work environment by taking action against inappropriate workplace and business behaviour (including discrimination, harassment, bullying, victimisation and vilification);
- Networking opportunities for women; and
- Supporting the promotion of women to management roles.

The Board establishes measurable targets for achieving gender diversity, and considers the appropriateness of the targets on at least an annual basis. The current gender diversity targets are to:

- Maintain the strong representation of women within the Group by having the proportion of women employed by the Group at or above 50%;
- Increase the number of women in senior executive positions, with the minimum target proportion being 30% by 30 June 2017; and
- Maintain the strong representation of women on the Board, with the target proportion being at or above 50%.

For the purposes of its diversity targets, the Board defines 'senior executive' as being employees of the Group who report directly to the Managing Director.

The following table sets out the Group's actual position in relation to gender diversity as at 30 June 2016:

	Male	Female	Total	Female Proportion %
Total employees	181	522	703	74%
Number of senior executives	7	1	8	13%
Number of Directors on the Board	2	3	5	60%

Board Performance

A performance appraisal of the Board, its committees and individual Directors is conducted annually. The process normally involves:

- Directors completing questionnaires to assess the Board's and its committees' effectiveness and in meeting the requirements of their charters; and
- Individual Directors meeting with the Chairman to provide feedback and discuss the review.

The Board as a whole then discusses and considers the results of the questionnaires and any recommendations are agreed as necessary. During the 2016 financial year, a self-assessment was conducted by the Board and its committees utilising this process.

Managing Director and Senior Leadership Team Performance

The Board, through its Nomination and Remuneration Committee, ensures that an appropriate process is in place for evaluating the performance of the Managing Director and the other key senior leadership team members at least annually. This process normally involves the Nomination and Remuneration Committee formally evaluating the performance of the Managing Director, and the Managing Director undertaking separate formal performance evaluations of the individuals comprising the senior leadership team.

During the financial year ended 30 June 2016, formal performance evaluations were undertaken in accordance with this process.

Principle 2: Structure the Board to add value

Composition of the Board

At the beginning of the financial year ended 30 June 2016 the Board comprised four Directors due to a temporary Board vacancy created by the retirement of the previous Chairman with effect from 1 July 2015. Following the appointment of Ms. Patricia M. Payn as a Director with effect from 12 October 2015, the number of Directors on the Board increased to five.

Each of the Directors has broad and relevant industry experience, as further set out in the Board Skills Matrix below.

All Directors other than the Managing Director are independent non-executive Directors. The McPherson's Limited Board composition is in accordance with the Group's Board Charter and the ASX Corporate Governance Principles. All Directors, other than the Managing Director, stand for re-election by shareholders on a three year rotational basis as required by the Company's constitution and the ASX Listing Rules.

As indicated above, the Board's previous Chairman, Mr David Allman, retired as a Director of the Company on 1 July 2015 and the Board appointed Mr Graham Cubbin as Chairman with effect from that date. Mr Cubbin is an independent non-executive Director.

Summary information relating to the Directors of McPherson's Limited is set out below. Further details pertaining to each of the Directors can be found in the Directors' Report in the Group's 2016 Annual Report:

Graham A. Cubbin

Non-executive independent Director and Chairman of the Board
Director since 28 September 2010
Chairman since 1 July 2015

Paul J. Maguire

Managing Director**
Director since 1 November 2009

Amanda M. Lacaze

Non-executive independent Director
Director since 22 September 2011

Jane M. McKellar

Non-executive independent Director
Director since 23 February 2015

Patricia M. Payn

Non-executive independent Director
Director since 12 October 2015

** As announced on 22 August 2016, the Company is implementing a leadership transition pursuant to which Mr Maguire is to resign as Managing Director and Mr Laurie McAllister is to be appointed to that position, each with effect from the conclusion of the Company's Annual General Meeting to be held on 21 November 2016.

In compliance with the Company's constitution and its Board Charter, the composition of the Board is determined using the following principles:

- The number of Directors must not be less than three. Directors may determine the size of the Board subject to this requirement;
- The Board is to be comprised of a majority of non-executive independent Directors;
- The Chairman of the Board is to be a non-executive independent Director; and
- The Board should comprise Directors with a broad range of expertise both nationally and internationally that is relevant to the strategic direction of the Group.

Independence of Directors

The Board assesses the independence of Directors on their appointment and then at least annually. This assessment is made with reference to the definition of an independent Director contained in the ASX Corporate Governance Principles, namely:

An independent Director is "a director who is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the entity and its security holders generally."

All facts and circumstances are considered by the Board in determining the independence of a Director. It is not possible to provide prescriptively for all circumstances that will constitute a conflict of interest or a material relationship. Nor is it possible to pre-determine whether such circumstances will be considered as being likely to affect a Director's independent exercise of judgement. All Directors are required to advise the Board and / or company secretary at the earliest opportunity of any changes to circumstances that may affect their independence.

Subject to the proviso referred to above, a non-executive Director will generally be considered independent if they:

- Are not a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Have not within the last three years been an executive of the Company (or a Group company);
- Have not in the last three years been a principal of a material professional adviser or a material consultant to the Company (or Group), or an employee materially associated with the service provider;
- Are not a supplier or customer of the Company or other Group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer;
- Do not have a material contractual relationship with the Company or another Group member (other than as a Director of the Company);
- Do not have close family ties with any person who falls within any of the categories described above; and
- Have not been a Director of the Company for such a period that his or her independence may have been compromised.

The Independent Directors of the Company at the date of this statement are Graham Cubbin, Amanda Lacaze, Jane McKellar and Patricia Payn. Paul Maguire is not considered to be independent due to his executive role as Managing Director.

Director Induction and Continuing Education

All new Directors participate in a formal induction process co-ordinated by the company secretary. This induction process includes briefings on the Group's strategy, financial, operational and risk management matters, governance framework, culture and values and key developments in the Group, markets and countries in which the Group operates.

The Board also has a continuing education program in place for Directors to develop and maintain the skills and knowledge needed to perform their roles as Directors effectively.

Independent Professional Advice

Each Director has the right to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, which approval is not to be unreasonably withheld.

Nomination and Remuneration Committee

To assist in the execution of its responsibilities the Board has an established Nomination and Remuneration Committee. In accordance with its charter, the Nomination and Remuneration Committee is required to consist of at least three members and be comprised of a majority of independent Directors.

However, as a consequence of the retirement of David Allman as a Director on 1 July 2015, the Nomination and Remuneration Committee temporarily comprised two members, namely Jane McKellar (Chairman) and Graham Cubbin. The size and composition of the Committee was reviewed following the appointment of Patricia Payn as a non-executive Director on 12 October 2015. As a consequence of the review, Ms Payn was appointed as a member of the Nomination and Remuneration Committee on 29 October 2015. Since that time the Group

has fully complied with the Committee's charter and the relevant ASX Corporate Governance Principles.

The Nomination and Remuneration Committee Charter sets out the responsibilities of the Nomination and Remuneration Committee. Key responsibilities of the Committee include:

Nomination and Evaluation

- The establishment and maintenance of a process for determining the necessary and desirable competencies of Board members and the assessment of those competencies;
- the appointment of suitably qualified candidates to the Board in accordance with Board policy;
- Establishing the time required to fulfil the obligations of a non-executive Director and whether Directors are able to meet these expectations;
- The appointment of the Managing Director;
- Establishing a process for the review of the performance of the Board, Board Committees and individual Directors;
- Establishing a process for the evaluation of the Managing Director;
- Establishing induction and continuing professional development programs for Directors to maintain and develop their skills; and
- Board, Managing Director and senior executive succession plans.

Remuneration

- Non-executive Director remuneration;
- Staff incentive plans proposed by the Managing Director, including bonus, share, performance rights and option plans, the basis of their application amongst differing levels of staff and the determination of plan outcomes;
- Salary, benefits and total remuneration packages of the Managing Director and senior staff reporting to the Managing Director;
- Employee succession planning to ensure the continuity and quality of management;
- Policies for remuneration programs appropriate to McPherson's;
- Whether there is any gender or other inappropriate bias in remuneration for Directors, senior executives or other employees;
- The company's recruitment, retention and termination policies and relevant procedures for executive/senior management; and
- Any report on executive remuneration which is required pursuant to any ASX Listing Rule or legislative requirement, or which is proposed for inclusion in the annual report.

The Nomination and Remuneration Committee Charter requires that the Committee undertakes a regular self assessment process. Such a review was undertaken during the year ended 30 June 2016.

Audit Risk Management and Compliance Committee

The Board also has an Audit Risk Management and Compliance Committee. Refer to "Principle 4: Safeguard integrity in corporate reporting", for further details.

Board skills matrix

The skills, experience and expertise of individual Directors is detailed in the Company's 2016 Annual Report.

To assist in identifying areas of focus and maintaining an appropriate and diverse mix in its membership, the Board utilises a skills matrix which is reviewed by the Board on a regular basis. It is an important, but not the only, basis of criteria applying to Director appointments.

The following skills matrix sets out the mix of skills, experience and expertise that the Board currently has:

<ul style="list-style-type: none">- Brand Management- Consumer Products Industry- Beauty Industry- Sales, Marketing and Retail- Supply Chain, Distribution and Logistics- Product Development and Innovation- Digital, E-Commerce and Information Technology- Global Product Sourcing	<ul style="list-style-type: none">- International Operations- Strategic Development and Implementation- Mergers and Acquisitions- Executive Leadership- Human Resource Management- Accounting and Finance- Risk Management- Public Company Corporate Governance- Corporate and Consumer Communication
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Principle 3: Act ethically and responsibly

The Board and the Group's senior executives are committed to acting ethically and responsibly at all times and for creating a culture within the Group that promotes ethical and responsible behaviour. The Group has an established Ethics and Responsible Business Conduct Policy as well as a Code of Conduct for all employees.

These policies prescribe the standards in accordance with which each Director and employee of the Group is expected to act. The policies cover issues such as professional conduct, integrity of information, dealing with customers, suppliers and competitors, dealing with the community and other employees, computer network usage and environmental issues.

All Directors, senior executives and employees are required to maintain the standards of ethical conduct established by the Group in accordance with the policies.

A separate policy also exists which provides clear guidelines for Directors and employees intending to deal in McPherson's Limited securities which are contained in the Company's Securities Trading Policy. In summary, the policy states that providing an individual is not in possession of unpublished price sensitive information, trading in the Company's securities is permitted, apart from the following periods during which trading in company securities is prohibited:

- The period commencing one month before the end of the half year (i.e. from 30 November) until the day following the day on which the Company's half year results are announced; and
- The period commencing one month before the end of the full financial year (i.e. from 31 May) until the day following the day on which the Company's full year results are announced.

Principle 4: Safeguard integrity in corporate reporting

Audit Risk Management and Compliance Committee

As indicated earlier the Board has constituted an Audit Risk Management and Compliance Committee. The Committee has a separate charter under which it operates. The charter is considered for amendment by the Directors annually. The main responsibilities of the Committee under the charter are to:

Risk Management, internal control and compliance

- Evaluate the company's risk management framework;
- Monitor and assess management's process for managing risk and how the business units apply the processes for managing risk;
- Review and evaluate the effectiveness of the entity's risk management, internal control and compliance system; and
- Monitor and assess the Group's compliance with laws and regulations.

Financial Reporting

- Consider the appropriateness of the Group's accounting policies and principles and how those principles are applied;
- Ensure that accounting policies and principles are consistent with Accounting Standards;
- Assess the significance of estimates and judgments in financial reports by evaluating the process management used in making material estimates and judgements;
- Monitor the quality and reliability of the financial information prepared by management for approval by the Board;
- Review and report to the Board on the financial statements and related notes, and on the external auditor's audit of the financial statements and its accompanying report; and
- Review and assess management processes for ensuring compliance with laws, regulations and accounting standards relating to external reporting.

External Audit

- Recommend to the Board the appointment and removal of the external auditor, review the terms of its engagement including arrangements for the rotation of external audit partners, and the scope and quality of the audit; and
- Monitor auditor independence.

Internal Audit

- Make recommendations to the Board on the structure of the internal audit function;
- Make recommendations to the Board on the appointment, and where necessary, the removal of the internal auditor; and
- Review and monitor the quality and scope of work performed by the internal auditor.

The ASX Corporate Governance Principles relating to audit committees include the following:

- The committee should have at least three members, all of whom are non-executive Directors;
- The majority of the committees members should be independent Directors; and
- The committee should not be chaired by the chairperson of the Board.

However, as a consequence of the retirement of David Allman as a Director on 1 July 2015, the Audit Risk Management and Compliance Committee was temporarily comprised of two members, namely Graham Cubbin (Chairman) and Amanda Lacaze. The size and composition of the Committee including its chairman was reviewed following the appointment of Patricia Payn as an additional non-executive Director on 12 October 2015. As a consequence of the review, Ms Payn was appointed as a member of the Committee on 29 October 2015, and as Chairman of the Committee from 18 November 2015. Since that time the Group has been in full compliance with its charter and the ASX Corporate Governance Principles.

The Chairman of the Board and any other non-executive Director may attend Audit Risk Management and Compliance Committee meetings. The internal and external auditors, the Managing Director, the Chief Financial Officer and the Company Secretary are invited to Audit Risk Management and Compliance Committee meetings at the discretion of the Committee. The Committee is therefore able to meet without management being present. The Committee also ensures that it meets with the external auditors without management being present on at least an annual basis.

The Company has engaged the services of an outsourced internal audit provider whose primary role is to assess the effectiveness of the Company's risk management, internal control and compliance system. The internal auditor is independent of the external auditor and is appointed by the Board on recommendation from the Audit Risk Management and Compliance Committee. The internal audit function undertakes regular reviews of Group businesses and key associated risks, and reports on the adequacy and effectiveness of the risk management, internal compliance and control systems in place directly to the Audit Risk Management and Compliance Committee.

The Committee meets with the internal and external auditors during the year to consider all aspects of their respective audit functions.

The Audit Risk Management and Compliance Committee requires that the external auditor attends the Annual General Meeting to answer questions about the conduct of the audit, the independence of the auditor and the content of the audit report.

The names and qualifications of Audit Risk Management and Compliance Committee members and their attendance at meetings are detailed in the Company's 2016 Annual Report.

The Committee is required to undertake a process of self assessment annually, to assess the effectiveness of the Committee. Such a review was undertaken during the year ended 30 June 2016.

Prior to the financial statements for a financial year or half year being presented to the Board for approval, the Managing Director and Chief Financial Officer are asked to provide the Board with a declaration that, in their opinion, the financial records of the McPherson's Limited group have been properly maintained in accordance with the Corporations Act, that the financial statements comply with the appropriate accounting standards and give a true and fair view of the entity, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Principle 5: Make timely and balanced disclosure

It is the Company's policy to provide timely, open and accurate information to all stakeholders, including investors, regulators and other relevant parties. The Company has a Communications Policy to ensure compliance with the ASX Listing Rules requirements in relation to continuous disclosure, accountability for disclosure to the markets, for other

shareholder communications and encouraging shareholder participation at Annual and other General Meetings.

The purpose of the Communications Policy is to:

- Promote effective communication with shareholders and encourage effective participation at General Meetings of the Company;
- Ensure the Company complies with the continuous disclosure obligations under the ASX Listing Rules;
- Ensure the Company responds to or prevents a false market in the Company's shares;
- Ensure that the confidentiality of corporate information is safeguarded and premature disclosure is avoided;
- Ensure that employees are aware of the importance of providing full and timely disclosure of the Company's activities to shareholders and the market, so that all stakeholders have equal access to company information which is externally available; and
- Set out the framework and strategy for achieving those goals.

All information disclosed to the ASX is posted on the Company's website immediately after it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX before the briefing commences and then posted on the Company's website.

The Company Secretary is the person responsible for communications with the Australian Securities Exchange. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Principle 6: Respect the rights of security holders

The Company has established a website which provides investors with ready access to information on the Group. This includes, among other items:

- Information about the Group's operations and its governance;
- Copies of ASX market announcements for the past three years; and
- Half-yearly and annual financial data for the past three years.

As indicated above, all information disclosed to the ASX is posted on the Company's website immediately after it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX before the briefing commences and then posted on the Company's website.

The Board seeks to encourage participation of shareholders at the Annual General Meeting to ensure a high level of accountability. Important issues are presented as single resolutions.

As indicated above in *Principle 5: Make timely and balanced disclosure*, the Company has a Communications Policy. This policy includes such matters as the Company's approach with respect to shareholder participation at general meetings and reporting to shareholders, including the ability to communicate with shareholders electronically.

Principle 7: Recognise and manage risk

The Board has ultimate responsibility for overseeing risk management and compliance across the Group. It is the role of management to design and implement an appropriate framework to identify and manage risk on an ongoing basis, to ensure that the Group operates within the framework and to satisfy itself the framework is sound.

The Board is responsible for satisfying itself at least annually that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Audit Risk Management and Compliance Committee and reviewed by the Board.

Risk is an important consideration in the Group's decision making process and all risks and opportunities are adequately and appropriately assessed to ensure that unreasonable risk exposures are minimised. The Group's risk and compliance frameworks ensure that all risks and compliance obligations are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The key risks are identified in a Group risk analysis matrix which is used to:

- Determine the effectiveness of controls to address risks assessed as extreme or high;
- Isolate and report indicators of mitigating controls and their effectiveness;
- Isolate and report any recent incidents pertaining to the risk area;
- Report recent action taken to improve risk management;
- Isolate any areas for potential improvement;
- Report how the Group's existing insurance program responds to each area of risk; and
- Assist in prioritising areas of focus for internal audit.

The key risks that have potential to materially affect the Group's economic and financial prospects include: reduction in consumer demand; workplace health and safety; foreign currency fluctuation; inability to adequately finance operations; raw material price fluctuation; loss of a major customer or deranging of a major product range; deficiency in product quality; compliance with debt facility undertakings and cyber security related threats.

It is considered that the Company or its operations do not have a material exposure to environmental or social sustainability risks.

The Managing Director is accountable to the Board for the development and management of the Group's risk and compliance frameworks and is supported by the Chief Financial Officer in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Audit Risk Management and Compliance Committee. Each senior executive is responsible for the management of risk and compliance with relevant laws and regulations.

Internal Control and Compliance Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has established an internal control framework that can be described under the following headings:

- Financial reporting - a comprehensive budgeting system is in place with an annual budget approved by the Directors. Monthly actual results that are reported against budget and revised forecasts for the year are prepared regularly for internal use by Directors and management;
- ASX disclosure and compliance - the Group reports to shareholders on an annual basis and to the ASX half-yearly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with the continuous disclosure requirements of the ASX Listing Rules. The Company Secretary has primary responsibility for making recommendations to the Chairman and Managing Director on whether information is price sensitive. Further details are included in the Company's Communications Policy;
- Management assurance - the Managing Director and Chief Financial Officer have made the following certification to the Board in connection with the full-year financial statements:
 - 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 Group 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 that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks;
- Quality and integrity of personnel - the Group's personnel policies are detailed in internal policies, compliance with appropriate sections of which is mandatory by all operating units;
- Environmental controls - the Group has a specific policy under the terms of which it is mandatory for all business units within the Group to operate in a manner which complies with all applicable environmental laws, regulations and permits;
- Operating unit controls - financial controls and procedures including information systems controls are detailed in the internal policies;
- Functional specialty reporting - the Group has identified a number of key areas which are subject to regular reporting to the Board including employee safety, environmental, foreign currency hedging, legal and insurance matters; and
- Investment appraisal - the Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed justification and review procedures and levels of authority and due diligence requirements.

Principle 8: Remunerate fairly and responsibly

Remuneration Policy

The Group's remuneration policy and structure is equitable, competitive and consistent so as to ensure the recruitment and retention of personnel of the capability, competence and experience necessary for the successful achievement of the Group's strategies and goals. The Group's Nomination and Remuneration Committee is responsible for the Group's overall remuneration policy and framework.

Further information regarding the Committee, and its composition and objectives is set out in *“Principle 2: Structure the Board to add value”* above, under the heading ‘Nomination and Remuneration Committee’.

Remuneration is set according to the following principles:

- No individual may be involved directly in determining his or her remuneration. External advice in relation to remuneration will be sought, where appropriate;
- Remuneration disclosure to shareholders will at a minimum comply with the requirements of legislation and Accounting Standards and reflect all benefits including:
 - Base pay and benefits;
 - Short term performance incentives;
 - Long term incentives including options and performance rights;
 - Post employment benefits including superannuation; and
 - Termination benefits.
- Incentive payments for executives are related to Company performance, individual performance against goals, market conditions and independent expert advice where appropriate and may include options and/or performance rights over shares in the Company granted under the McPherson’s Limited Employee Share/Option Purchase Plan or the McPherson’s Limited Employee Performance Rights Plan at the discretion of the Board or the Nomination and Remuneration Committee; and
- Remuneration for non-executive Directors is determined by the Nomination and Remuneration Committee within a maximum aggregate amount approved by shareholders from time to time at the Annual General Meeting. Non-executive Directors are not entitled to participate in any incentive scheme.

Where considered necessary, Directors may obtain independent advice on the appropriateness of remuneration packages.

Any Director who serves on or chairs a Board committee, or who devotes special attention to the business of the Group outside the scope of their ordinary duties, may receive an additional payment commensurate with the extra duties performed.

The Company’s Securities Trading Policy contains a restriction on removing the ‘at risk’ aspect of options, performance rights or other instruments granted to executives. Plan participants may not enter into any transaction designed to remove the ‘at risk’ aspect of options, performance rights or other instruments before they vest.

Information regarding Directors’ and other key management personnel remuneration is set out in the Remuneration Report within the Group’s 2016 Annual Report.