



# **CORPORATE GOVERNANCE STATEMENT**

**2019**

**Approved: 14 August 2019**

## Corporate Governance Statement - 2019

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 Company and Board regularly review the Group's governance arrangements, as well as developments in market practice, stakeholder expectations and regulation. The Group's corporate governance arrangements conform to the Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) issued by the ASX Corporate Governance Council ("ASX Corporate Governance Principles").

The Company will shortly undertake a further comprehensive review of its corporate governance arrangements, including with reference to the 4<sup>th</sup> Edition of the ASX Corporate Governance Principles issued in February 2019, and the Board will then make any appropriate changes which may arise from that review.

This Corporate Governance Statement has been approved by the Board and is current as at 14 August 2019. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2019, 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:

**<https://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;
- Establishing and reviewing the Group's appetite for financial and non-financial risk.
- Overseeing and approval of the risk (both financial and non-financial), 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 (KMPs) are included in the Remuneration Report in the Group's 2019 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 and Inclusion**

The Group values diversity and inclusion and recognises the benefits they can bring to the Group's ability to achieve its goals. Accordingly, the Group has established a Diversity and Inclusion Policy which reflects the Group's commitment to providing a workplace environment in which employees have equal access to the opportunities available, where they are not judged by reference to unlawful or irrelevant attributes and employees can experience a genuine feeling of inclusion.

The main objectives of this Policy are to ensure that McPherson's:

- Maximises the value of each employee's skills, values, background and experiences; and
- Develops an inclusive workplace environment, so each employee can realise their full potential, regardless of their background, gender, age, work status, marital status, and religious or cultural identity.

A diverse workforce is one that recognises and embraces the value that different people can bring to a company through their gender, age, ethnicity, cultural background, marital status, sexual orientation and/or religious beliefs.

Inclusion refers to the adoption of workplace practices and behaviours which respond to people in order to ensure that each individual feels included in workplace activities. It involves both including people in opportunities and promoting a workplace in which individuals have a genuine sense of belonging.

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;
- Enables McPherson's to provide an enhanced service to its customers;
- 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:

- Operating mentoring 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);
- Initiating 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 50%; and
- Increase the 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 2019:

	Male	Female	Total	Female Proportion %
Total employees	98	199	297	67.0%
Number of senior executives	6	4	10	40.0%
Number of Directors on the Board	4	2	6	33.3%

Subsequent to the end of the previous financial year, Ms. Alison Mew was appointed as an independent, non-executive Director of the Company. Ms. Mew's appointment on 24 July 2018 increased the total number of Directors on the Board to six and resulted in an increase in the proportion of total Directors who are female to 33.3% from 20% previously.

### **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 respective 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 2019 financial year, a self-assessment was conducted by the Board and each of its committees utilising the above 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 2019, formal performance evaluations were undertaken in accordance with this process.

## **Principle 2: Structure the Board to add value**

### **Composition of the Board**

From 1 July 2018 until 23 July 2018 the Board comprised five Directors. Following Ms. Alison Mew's appointment as an independent, non-executive Director of the Company with effect from 24 July 2018 the Board has comprised six Directors.

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.

At the Company's Annual General Meeting in November 2018, the election of Grant Peck, Geoff Pearce and Alison Mew as Directors and the re-election of Jane McKellar as a Director were each considered as separate resolutions. Each resolution was approved by shareholders via a poll.

Summary information relating to the Directors on the Board 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 2019 Annual Report:

#### **Graham A. Cubbin**

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

#### **Laurence McAllister**

Managing Director  
Director since 21 November 2016

#### **Jane M. McKellar**

Non-executive independent Director  
Director since 23 February 2015  
Chairman of the Nomination and Remuneration Committee since 27 April 2015

#### **Grant W. Peck**

Non-executive independent Director  
Director since 14 December 2017  
Chairman of the Audit Risk Management and Compliance Committee since 20 February 2018

#### **Geoffrey R. Pearce**

Non-executive independent Director  
Director since 20 February 2018

#### **Alison J. Mew**

Non-executive independent Director  
Director since 24 July 2018

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 actual or potential conflicts of interest, or 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 material supplier or material customer of the Company or other Group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or material 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, Jane McKellar, Grant Peck, Geoff Pearce and Alison Mew. Laurie McAllister 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.

The Group has fully complied with the Committee's charter and the relevant ASX Corporate Governance Principles in this regard during the financial year ended 30 June 2019 and to the date of this statement.

The Nomination and Remuneration Committee is comprised of three members, all of whom are independent. During the year ended 30 June 2019 and to the date of this statement the Committee has comprised Jane McKellar (Chairman), Graham Cubbin and Grant Peck.

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 2019.

### **Audit, Risk Management and Compliance Committee**

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

### **Board Skills Matrix**

The skills, experience and expertise of individual Directors are detailed in the Company's 2019 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:

- Brand Management	- International Operations
- Consumer Products Industry	- Strategic Development and Implementation
- Beauty Industry	- Mergers and Acquisitions
- Health Services Industry	- Executive Leadership
- Sales, Marketing and Retail	- Human Resource Management
- Supply Chain, Distribution and Logistics	- Accounting and Finance
- Product Research, Development and Innovation	- Risk Management
- Digital, E-Commerce and Information Technology	- Public Company Corporate Governance
- Global Product Sourcing	- Corporate and Consumer Communication

### **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.

A further ethical policy has also been issued which provides additional clarity on a number of related matters, comprising:

- A requirement for employees to act ethically and maintain certain specific standards of conduct;
- Establishing the principles to be followed in ethically sourcing products;
- Prescribing product supplier health and safety requirements;
- A requirement to ensure compliance with customer specific requirements; and
- Guidelines relating to product performance and content claims.

All Directors, senior executives and employees are required to maintain the standards of ethical conduct established by the Group in accordance with these 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 applies 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 their 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 their 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 committee's members should be independent Directors; and
- The committee should not be chaired by the chairperson of the Board.

The Group has been in full compliance with its charter and the ASX Corporate Governance Principles in this regard during the financial year ended 30 June 2019 and to the date of this statement.

The Audit, Risk Management and Compliance Committee is comprised of three members, all of whom are independent. During the year ended 30 June 2019 and to the date of this statement, the Audit, Risk Management and Compliance Committee has comprised Grant Peck (Chairman), Graham Cubbin and Jane McKellar.

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 ensures that it does meet with the external auditor 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 from shareholders regarding the conduct of the audit, the independence of the auditor and the content of the audit report. The auditor's engagement partner, Mr. Shannon Maher of PricewaterhouseCoopers, was present at the company's 2018 Annual General Meeting held in November 2018.

The names and qualifications of Audit, Risk Management and Compliance Committee members and their attendance at meetings are detailed in the Company's 2019 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 2019.

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;
- The financial statements comply with the appropriate accounting standards and give a true and fair view of the entity; and
- 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. All resolutions at a meeting of securityholders are decided by a poll rather than being determined on a show of hands.

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 that management has developed and implemented a sound system of risk management and internal control. Detailed consideration of this 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 an enterprise risk management report which, in addition to identifying and providing updates on key enterprise risks, 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 been identified as having the potential to materially affect the Group's economic and financial prospects include: workplace health and safety related risks, a reduction in consumer sentiment and/or demand;; deterioration in margins from an adverse foreign currency fluctuation; a decline in intangible asset valuation; inability to adequately finance operations; raw material price fluctuation; loss of a major customer or deranging of a major product range; key supplier redundancy; deficiency in product quality; adverse change in the regulatory landscape; loss of key management talent; non-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 – as indicated above the Managing Director and Chief Financial Officer are required to make the following certification to the Board in connection with the full-year financial statements:
  - that in their opinion 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 proposed capital expenditure or investment in other businesses, joint ventures or new agency arrangements. These include annual budgets, detailed justification and review procedures, 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 has primary responsibility 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 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 Board 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. For the year ended 30 June 2019, non-executive Directors received additional fees for their Chairmanship and membership of the Audit, Risk Management and Compliance Committee. The Chairman of the Nomination and Remuneration Committee also received an additional fee, however other members of that committee did not.

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. Performance Rights 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 2019 Annual Report.