

## CORPORATE GOVERNANCE STATEMENT (JUNE 2021)

### 1. Overview

Friendly Society Medical Association Limited (FSMA), which operates as National Pharmacies under its various trading names, is a mutual organisation owned by its members. It strives to operate at the appropriate level of corporate governance. Whilst the inclusion of a Corporate Governance Statement is not a requirement for FSMA, as it is not an ASX listed company, we have included a Corporate Governance Statement to demonstrate to members the commitment of the Board to operate under the appropriate level of corporate governance.

### 2. Role and Responsibilities of the Board

The Board has adopted a formal Charter which can be viewed in the Corporate Governance section of the National Pharmacies website.

The Board is responsible for:

- Setting and reviewing the strategic direction of FSMA and monitoring the implementation of that strategy by executive management;
- The oversight of FSMA including its control and accountability systems;
- Appointing and removing the Chief Executive Officer;
- Approving the appointment and the removal of senior executives;
- Providing input into and final approval of senior executives' development of corporate strategy and performance objectives;
- Reviewing, approving and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Monitoring senior executives' performance and implementation of strategy;
- Ensuring appropriate resources are available to senior executives;
- Approving the annual budget, including the capital expenditure budget;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- Monitoring financial reporting on a monthly basis;
- Approving the statutory accounts on the recommendation of the Audit and Risk Committee;
- Reviewing and approving the remuneration of the Chief Executive Officer and senior executives on the recommendation of the People, Culture and Rewards Committee;
- Appointing, re-appointing or removing the Company's external auditors on the recommendation of the Audit and Risk Committee;
- Approving material policies and the Company's governance statements;
- Reviewing the Company's Constitution when required;
- Monitoring and overseeing the management of member and community relations; and
- The oversight of Workplace Health and Safety.

The Chief Executive Officer is responsible to the Board for the day-to-day management of FSMA.

### 3. Structure and Composition of the Board

The Board will be comprised of a majority of independent non-executive Directors. As at 30 June 2021 it was comprised of four non-executive Directors.

The composition of the Board will be derived from the skills and diversity matrix which will be reviewed periodically.

The Chairman is an independent non-executive Director. There are no executive Directors.

The skills and experience of the Company's Directors are detailed on pages 13 to 15 of the Annual Report.

### 4. Independence

An independent Director must be independent of management and able to exercise unfettered and independent judgement, free of any business or other relationship that could materially interfere with the Director's ability to act in the best interests of the Company. Directors are required to bring independent views and judgement to Board deliberations.

The independent Directors are identified in the Directors' Report.

In assessing whether the Director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations.

The Board considers that all the non-executive Directors are independent. That is, for the 2021 financial year, no non-executive Director had any relationship that could materially interfere, or be perceived to materially interfere, with the Director's unfettered and independent judgement. The non-executive Directors meet at times during the year without the Chief Executive Officer present. The non-executive Directors also hold an in camera session at each regular Board meeting.

In determining independence, each non-executive Director is required to make an annual disclosure of all relevant information to the Board and provide any changes at each meeting of the Board. Any assessment of independence for a non-executive Director who does not meet the independence standards adopted by the Board will be specifically disclosed in the Corporate Governance Statement.

Disclosure of related party transactions is set out in Note 6 in the financial report.

### 5. Induction and Continuing Education

Management, working with the Board, provides an orientation program for new Directors and new senior executives. The program includes discussions with executives and management, reading material and site visits. These cover National Pharmacies' strategic plan, its significant financial, accounting and risk management issues, compliance programs, code of conduct, management structure, internal and external audit programs, and Directors' rights, duties and responsibilities.

Management periodically conducts additional presentations and briefing sessions for Directors about FSMA and the factors impacting, or likely to impact, on its businesses, including visits to stores and operational locations, which assists non-executive Directors to gain a broader understanding of National Pharmacies. Directors are also encouraged to keep up to date on topical issues.

## 6. Appointment and Re-Election of Board Members

A review of Board composition and skills is undertaken periodically by the People, Culture and Rewards Committee using a skills matrix that enables the Committee to assess the skills and the experience of each Director and the combined capabilities of the Board.

The results of this review are considered in the context of the FSMA operations and strategy and Board diversity. The results of this review are then incorporated into the selection process for new Directors.

The process for appointing a Director is that, when a vacancy exists, the People, Culture and Rewards Committee identifies candidates with the appropriate expertise and experience, using external consultants where appropriate. The most suitable candidate is appointed by the Board but must stand for election by members at the next Annual General Meeting of the Company. At any one time the number of Directors appointed by the Board shall not exceed 40% of the total number of Directors as per the FSMA Constitution.

The Company has formal letters of appointment for each of its Directors, setting out the key terms and conditions of the appointment.

The process for the re-election of a Director is in accordance with the Company's Constitution, which requires that, other than the Managing Director (if a Managing Director has been appointed), one Director is required to retire at each Annual General Meeting and is eligible to stand for re-election. The director who must retire is the director who has been longest in office since their appointment on registration or their last election (whichever is later).

## 7. Indemnity

A deed has been entered into with each Director to provide indemnity and access to corporate records.

## 8. Management of the Company

Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time when they consider it appropriate.

The Board delegates authority and responsibility for the conduct of the Company's business to the Chief Executive Officer who is directly accountable to the Board through established policies and authority levels.

The executive team is comprised of the General Managers who meet regularly with the Chief Executive Officer to review the business of the organisation on a timely basis. The details of the executive management team are included at page 52 of the Annual Report.

## 9. Committees of the Board

During the 2021 financial year the Board operated an Executive Committee, an Audit and Risk Committee and a People, Culture and Rewards Committee to assist the Board in the discharge of its responsibilities. All Directors have a standing invitation to attend the meetings of the Audit and Risk and People, Culture and Rewards Committees. The charters for these Committees are available on the National Pharmacies website under the Corporate Governance section.

These Committees review matters on behalf of the Board and, subject to the terms of the relevant committee's charter:

- Where the Committee acts in an advisory capacity the Committee refers matters to the Board for consideration with a recommendation from the Committee; or
- Where the Committee acts with delegated authority the Committee determines matters which it then reports to the Board.

The Chairman may attend all meetings of those Committees of which they are not a member in an ex-officio capacity. The Chief Executive Officer will attend all meetings of Committees of which they are not a member in an ex-officio capacity.

Details of the membership, composition and responsibilities of each Committee are detailed in the following chart.

	<b>Audit and Risk Committee</b>	<b>People, Culture and Rewards Committee</b>	<b>Executive Committee</b>
<b>Members</b>	Mr R E England (Chairman) Mr G J Connor Ms L M Heron	Ms L M Heron (Chairman) Ms P F Carr Mr G J Connor Mr R A F England	Ms P F Carr (Chairman) Mr G J Connor Mr V Borrello
<b>Composition</b>	The Committee must comprise: <ul style="list-style-type: none"> <li>• Only independent non-executive Directors;</li> <li>• At least three members;</li> <li>• Members who have an understanding of financial statements and general accounting principles; and</li> <li>• At least one member who has financial experience.</li> </ul>	The Committee must comprise: <ul style="list-style-type: none"> <li>• Only non-executive Directors;</li> <li>• The Chairman of the Board,</li> <li>• At least three members; and</li> <li>• A majority of independent non-executive Directors.</li> </ul>	The Committee must comprise: <ul style="list-style-type: none"> <li>• At least three members and includes the Chairman, Deputy Chairman and the Chief Executive Officer.</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>• Reviewing all published financial accounts of the Company and discussion of the accounts with the external auditors and management prior to their submission to the Board for approval;</li> <li>• Reviewing any changes in accounting policies or practices and subsequent effects on the financial accounts of the Company;</li> <li>• Making recommendations to the Board on the appointment, performance and remuneration of the external auditor;</li> <li>• Reviewing with management the terms of the external audit engagement to make recommendations to the Board;</li> <li>• Reviewing the scope, plans and budget for, and overseeing the quality and effectiveness of, the internal audit function.</li> <li>• Reviewing and assessing non-audit services to be provided by the external auditor;</li> <li>• Monitoring and assessing the systems for internal compliance and control, legal compliance and risk management including cybersecurity and controls against fraud;</li> <li>• Overseeing tax compliance and governance; and</li> <li>• Reviewing the list of Committee tasks.</li> </ul>	<ul style="list-style-type: none"> <li>• Assisting the Board in the appointment, re-election and performance of Directors;</li> <li>• Reviewing the composition and performance of the Board;</li> <li>• Selecting and recommending the appointment of new Directors;</li> <li>• Ensuring each new Director undertakes an induction program;</li> <li>• Reviewing the composition of sub-Committees and submitting recommendations to the Board for changes to those Committees;</li> <li>• Determining the remuneration and incentive framework for FSMA including all new and any proposed amendments to existing remuneration, retention, and termination policies and practices. Determining the remuneration framework for non-executive Directors, Managing Director and Senior Executives;</li> <li>• Annually reviewing the remuneration conditions of employees not within the Senior Executive ranks;</li> <li>• Reviewing the People and Culture plan for FSMA and reporting annually to the Board on the progress towards the objectives of the Plan;</li> <li>• Reviewing employee Engagement Survey and Performance Appraisal results; and</li> <li>• Reviewing the list of Committee tasks.</li> </ul>	<ul style="list-style-type: none"> <li>• To deal with issues that arise between Board meetings that require urgent consideration.</li> <li>• The Committee is authorised to call a short notice Board meeting for the full Board to address any urgent issues.</li> </ul>

## 10. Performance Evaluation

The Board undertakes a review of the performance of the Board and its Committees on a regular basis. The FSMA Board uses various assessment models for Board and individual Director reviews. This year the Chairman interviewed each Board member individually as part of the Board evaluation process.

Each Director is also evaluated by the People, Culture and Rewards Committee as to their suitability and eligibility when nominations for re-appointment become due. Committee structure and membership are reviewed on an annual basis following the AGM.

The Chief Executive Officer and senior executives participate in annual performance reviews. Performance is measured against key performance indicators relevant to the executive's role. A performance evaluation for senior executives took place for the current reporting period in accordance with the process.

## 11. Access to Independent Professional Advice

Each Director is able to seek independent professional advice at the Company's expense, with the prior approval of the Chairman. The Chairman is able to seek independent professional advice at the Company's expense. All advice received is made available to all members of the Board unless in the Chairman's case it is considered privileged.

The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to perform its duties.

## 12. The Board Promotes Ethical and Responsible Decision Making

The Board is required to follow the organisation's ethical guidelines. These guidelines apply to all employees and Directors of FSMA and are communicated via the Employee Handbook, the Ethical Behaviour Policy and the Fraud and Corruption Control Policy with the conduct of the Board and each Director also governed by the Board Charter.

The standards and guidelines in relation to ethical behaviour include:

- Financial integrity;
- Conflicts of interest;
- Use of Company resources;
- Data security;
- Interactions with the public or media;
- Provision and acceptance of gifts, benefits and hospitality;
- Equal opportunity and respect in the workplace;
- Health and safety; and
- Corporate social responsibility.

### **13. Whistleblower Protection**

FSMA has a whistleblower protection program for confidential reporting of suspected wrongdoing, which ensures individuals who disclose wrongdoing can do so safely, securely and with confidence that they will be protected and supported. The organisation has engaged an external organisation to receive any eligible protected Whistleblower disclosures in the first instance. The disclosure is then forwarded to the Whistleblower Officer, who has been trained and appointed by the organisation to receive such disclosures.

Accordingly, there are established policies and procedures for the receipt, retention and treatment of disclosures regarding any disclosure matters as defined in the Corporations Act 2001 (Cth).

Employees are also encouraged to escalate any issues they believe could have a material impact on FSMA's profitability, reputation, governance or compliance.

### **14. Conflicts of Interest**

Directors are required to avoid conflicts of interest and immediately inform their fellow Directors should a conflict of interest arise. Directors are also required to advise FSMA of any relevant interest that may result in a conflict.

Where a matter in which a Director has a material personal interest is being considered by the Board, that Director must not be present when the matter is being considered or vote on that matter, unless all of the other Directors have passed a resolution to enable that Director to do so or the matter comes within a category of exception under the Corporations Act 2001.

If a significant conflict of interest with a Director exists and cannot be resolved, the Director is expected to resign after consultation with the Chairman.

### **15. Diversity and Inclusion**

FSMA recognises that a diverse and inclusive workforce is not only good for our employees; it is also good for our business. It helps FSMA attract and retain talented people, create more innovative solutions, and be more flexible and responsive to our members' and consumers' needs.

In recognising the importance of diversity, the Board has approved a Diversity and Inclusion policy.

The proportion of women employees in the whole organisation is 83%, the proportion of women in management positions is 61% and the proportion of women on the board is 50%.

FSMA is a Relevant Employer as defined by the Workplace Gender Authority Agency and the Gender Equality Public Report for the Company is available on the National Pharmacies website.

### **16. Corporate Social Responsibility**

The Board has developed a Corporate Social Responsibility Statement which is available on the National Pharmacies website.

### **17. Communication with Members**

The Board has developed a Communications Statement which is available on the National Pharmacies website.

## 18. External Auditor

The Audit and Risk Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to member approval where required.

The Audit and Risk Committee ensures that the lead external partner is rotated periodically, subject to a tenure of a minimum of five years and a maximum of ten years, with partner rotation to be reviewed at each engagement contract renewal date. At least two years must expire before the audit engagement partner can again be involved in the audit of the FSMA Group.

The Audit and Risk Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the effectiveness, performance and independence of the audit.

The Audit and Risk Committee receives assurances from the external auditor that they meet all applicable independence requirements in accordance with the Corporations Act 2001 (cth) and the recommendations of the professional accounting bodies. This independence declaration forms part of the Directors' Report and is provided on page 18 of the Annual Report.

The external auditor attends the FSMA Annual General Meeting and is available to answer member questions regarding aspects of the external audit and their report.

## 19. Internal Audit

FSMA's internal audit function independently assesses and provides assurance and recommendations regarding the effectiveness of business controls, governance, risk management processes and compliance with relevant laws and statutory requirements. The scope of the independent audit function aligns to the organisation's Corporate Risk Register.

The internal audit function is authorised to perform activities within the scope of the responsibilities set out in its Charter and to make appropriate recommendations to the Audit and Risk Committee.

Depending on the internal audit activity to be undertaken, and to ensure independence, the business determines the appropriate structure of resourcing to complete the work required. This may be 100% internal, 100% external or a hybrid of the two.

## 20. Risk Management

FSMA is committed to the identification, monitoring and management of material business risks associated with its business activities.

The Board is responsible for reviewing, approving and monitoring systems of risk management. The Audit and Risk Committee oversees the internal controls, policies and procedures which the Company uses to identify business risks and ensure compliance with relevant regulatory and legal requirements.

FSMA has embedded in its management and reporting systems a number of overarching risk management controls which include:

- Strict guidelines and limits for approval of all expenditure inclusive of capital expenditure and investments;
- A compliance program supported by approved guidelines and standards covering safety, the environment, legal liability, risk identification, quantification and reporting, and financial controls;
- A comprehensive risk financing program, including risk transfer to external insurers and reinsurers;

- Policies and procedures for the management of financial risk and treasury operations, including exposures to movements in interest rates;
- A formal dynamic planning process of preparing five year strategic plans each year;
- Annual budgeting and monthly reporting systems, which enable the monitoring of progress against performance targets and the evaluation of trends;
- Appropriate due diligence and analysis procedures for acquisitions and divestments;
- Crisis management systems and procedures tested through exercises;
- Protecting all internet facing information from threats and theft (cybersecurity);
- Detailed business continuity plans;
- A focus on security with regular reviews of location risks; and
- A strong commitment to privacy with policies and procedures in place developed in accordance with the Australian Privacy Principles set out in the *Privacy Act 1988* of the Commonwealth of Australia.

Each meeting, the Board reviews the list of strategic risks for the organisation.

## 21. CEO/CFO Declaration

As required by Section 295A of the Corporations Act, the CEO and CFO have declared that:

“In our opinion

- a. the financial records of FSMA and its controlled entities for the financial year ended 30 June 2021 (Financial Period) have been properly maintained in accordance with section 286 of the Corporations Act;
- b. the financial statements and the notes referred to in section 295(3)(b) of the Corporations Act for the Financial Period comply with the accounting standards and other mandatory professional reporting requirements; and
- c. the financial statements and notes for the Financial Period give a true and fair view of the financial position and performance of FSMA in accordance with section 297 of the Corporations Act.”

In addition, the CEO and CFO also state to the Board that, in respect of FSMA for the Financial Period:

- a. “The declaration given in accordance with section 295A is founded on a sound system of risk management and internal compliance and control and the system is operating effectively in all material respects in relation to financial reporting risks; and
- b. The statement given regarding the risk management and internal compliance and control systems provides a reasonable, but not absolute level of assurance and does not imply a guarantee against adverse events or more volatile outcomes arising in the future.”