EBOS GROUP LIMITED

2018
Corporate Governance Statement

corporate governance

The Board regularly reviews and assesses the Group's governance structures to ensure they are consistent, both in form and in substance, with best practice. The Board considers that EBOS Group is substantially in compliance with the NZX Corporate Governance Code 2017 (NZX Code). Following the introduction of the NZX Code, the Board undertook a thorough review of the Group's corporate governance policies and codes in the 2018 financial year and updated those documents where appropriate. Accordingly, in some cases, EBOS Group has not complied with the NZX Code for the full financial year (this is outlined below).

The Company supports the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles) and acknowledges that it does not meet all of ASX's recommendations. Where the Company does not meet the ASX Principles, these have been outlined below.

Further information on the Company's corporate governance policies and practices can be found in the Company's Corporate Governance Code ('Corporate Governance Code'), the full content of which can be found on the Company's website at https://ebosgroup.gcs-web.com/corporate-governance. The Corporate Governance Code includes the Charters of the Board and its committees, and the policies (or a summary of them) referred to in this Corporate Governance Statement.

This Corporate Governance Statement was approved by the Board of EBOS Group Limited and is current as at 22 August 2018.

PRINCIPLE 1 – CODE OF ETHICAL BEHAVOUR

In May 2018, the Board approved a revised Code of Ethics which is a framework of standards by which the directors, employees and contractors of EBOS and its related companies (EBOS people) are expected to conduct their professional lives. It covers expectations in relation to the conduct of EBOS people, particularly in relation to acting honestly, with integrity, in the best interests of the Group, its shareholders and stakeholders and in accordance with law.

The Code also addresses anti-bribery and corruption and whistleblower protection matters. In support of this, the Board has adopted an Anti-Bribery and Corruption Policy and a Whistleblower Protection Policy.

The Code of Ethics is set out as Appendix A to the Corporate Governance Code. The Whistleblower Protection Policy and a summary of the Anti-Bribery and Corruption Policy are set out as Appendices H and I to the Corporate Governance Code.

SHARE TRADING BY DIRECTORS AND OFFICERS

The Company has a formal policy and procedures that directors and employees must follow when trading EBOS shares. The Share Trading Policy is set out as Appendix D to the Corporate Governance Code.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

ROLE OF THE BOARD AND MANAGEMENT

The Board is responsible for the supervision of the business and affairs of the Company and the monitoring of the performance of the Company on behalf of shareholders. The Board also places emphasis on regulatory compliance.

The Board is responsible for directing the Company and enhancing its value for shareholders. It has adopted a formal Corporate Governance Code that details the Board's role, responsibilities, membership and operation.

Responsibility for the day-to-day management of the Company has been delegated to the Chief Executive Officer (CEO) and his management team.

A key responsibility of the Board is its oversight of senior management and, in this regard, all Company executives are subject to annual performance review and goal planning. In addition, the Board monitors the performance of the CEO against the Board's requirements and expectations. In the 12 month period ended 30 June 2018, a review of each member of the Company's senior management was completed and this was discussed with the executive concerned as part of the annual review process for that executive.

STRUCTURE OF THE BOARD

The Board is structured to bring to its deliberations a range of experience relevant to the Company's operations.

Expertise	Experience
Strategy	**Industry**
Commercial acumen	• Healthcare
Financial knowledge and experience	• Marketing
Risk management	• Logistics
Corporate governance	• Technology
International trade	• Government
	Geographic regions
	• Oceania
	• South-East Asia

Page 21 of the 2018 Annual Report sets out the qualifications, expertise, experience and length of service of each director in office as at the date of this report.

The Board is elected by the shareholders of EBOS Group Limited. At each annual meeting at least one-third of the directors retire by rotation.

The Board currently comprises five directors. All of the directors are non-executive directors. Mark Waller, Elizabeth Coutts and Sarah Ottrey have been determined as Independent Directors as that term is defined in the NZX Listing Rules. Elizabeth Coutts and Sarah Ottrey are considered to be independent as that term is defined in the ASX Principles. Mark Waller does not satisfy every ASX Corporate Governance Council recommendation as to the factors relevant to assessing the independence of a director, but the Board members unanimously believe that he acts independently as a director and as Chairman, based on the experiences of those of them who have worked with him, and in particular having regard to the high degree of professionalism he has at all times displayed as an EBOS director and as Chairman. In addition, the Board notes that Mark Waller has no affiliation with any major shareholder of the Company and did not have any such affiliation during his tenure as the EBOS Managing Director/Chief Executive Officer.

The Board believes that its current structure is appropriate. The involvement of Peter Williams and Stuart McGregor reflects the confidence of Sybos Holdings Pty Limited as a 40% shareholder in the Company. A further enlargement of the Board for the sole purpose of complying with the ASX Principles is not justified at this time given the calibre of the current Board.

A statement as to which of EBOS' directors are Independent Directors (as that term is defined in the NZX Listing Rules) is set out in the 2018 Annual Report.

As set out in the Corporate Governance Code, the Chairperson and CEO are and should be different people.

As a New Zealand listed entity, the Company does not have a company secretary. The General Counsel provides company secretarial services. The General Counsel is accountable to the Board through the Chairman.

The Company's Corporate Governance Code provides for directors of the Company to obtain independent professional advice at the expense of the Company subject to obtaining the prior approval of the Audit and Risk Committee.

PROCEDURE FOR NOMINATION AND APPOINTMENT TO THE BOARD

The Company's policy in relation to the nomination and appointment of directors is set out in its Corporate Governance Code. The Company's policy is to undertake appropriate checks before putting forward a person to shareholders for election or appointing a person to fulfil a casual vacancy. Where the Company determines that a person is an appropriate candidate, shareholders are notified of that and are provided with all material information in the Company's possession that is relevant to their decision on whether or not to elect or re-elect a director through a number of channels, including through the Notice of Meeting and other information contained in the Annual Report and on the Company's website.

AGREEMENTS WITH DIRECTORS AND SENIOR MANAGEMENT

Upon appointment, each director (and senior executive) receives a letter of appointment that sets out the formal terms of their appointment, along with a deed of indemnity, insurance and access.

INFORMATION ABOUT THE DIRECTORS

Information about the directors, their independence and ownership interests in the Group can be found in the 2018 Annual Report at pages 21, 78 and 81.

A table at page 81 of the 2018 Annual Report shows attendance at the Board and committee meetings during the year ended 30 June 2018.

DIVERSITY

In July 2017, the Board adopted a Diversity Policy, which is set out as Appendix F of the Corporate Governance Code. Under the policy, the Board is responsible for setting measurable objectives for achieving diversity. The Board adopted the following objectives for the 2017/18 year:

- aim to increase the proportion of women on the Board as vacancies arise, having regard to the circumstances (including skill requirements) relating to the vacancies;
- aim to increase the proportion of women in executive and senior management roles as vacancies arise, having regard to the circumstances (including skill requirements) relating to the vacancies;
- continue to ensure that the remuneration of females in salaried roles is objectively reviewed against the remuneration of males in comparable roles in order to eliminate inequity based on gender (with such review taking into account relevant experience, qualifications and performance); and
- continue to promote family friendly and flexible work place practices including but not limited to parental leave, flexible return to work arrangements, flexible work arrangements and employee assistance programs.

The Board's evaluation of the Group's performance with respect to the Diversity Policy is set out in the Annual Report.

A quantitative breakdown of the Group's gender representation is also provided in the Annual Report.

TRAINING

Directors attend formal induction sessions where they are briefed on the Company's vision and values, strategy, financial performance, and governance and risk management frameworks. Directors are also provided with ongoing professional development and training opportunities and programs to enable them to develop and maintain the skills and knowledge needed to perform their role effectively.

EVALUATING THE BOARD'S PERFORMANCE

The Corporate Governance Code sets out a process for evaluating the performance of the Board, its committees and individual directors. This process occurred during the year and was led by the Chairman.

PRINCIPLE 3 – BOARD COMMITTEES

Specific responsibilities can be delegated to the Audit and Risk Committee and the Remuneration Committee. Each of these committees has a charter setting out the committee's objectives, procedures, composition and responsibilities. Copies of these charters are available on the Company's website and form part of the Corporate Governance Code.

Under the Corporate Governance Code, the Board may constitute an ad hoc Committee to deal with a particular issue facing it which requires specialist knowledge and experience.

During the year ended 30 June 2018, the Board determined, having regard to the current composition of the Board, that a Nomination Committee was no longer required. The Board undertakes the functions previously delegated to that committee.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee provides the Board with assistance in fulfilling its responsibilities to shareholders, the investment community and others for overseeing the Company's financial statements, financial reporting processes, internal accounting systems, financial controls, annual external financial audit and EBOS' relationship with its external auditor. In addition, the Audit and Risk Committee is responsible for the establishment of policies and procedures relating to risk oversight, identification, management and control.

The current members of the Audit and Risk Committee are Elizabeth Coutts (Chairman), Mark Waller and Stuart McGregor. Further information about the relevant qualifications and experience of the members of the committee is set out on page 21 of the 2018 Annual Report. The majority of the members are not independent for the purposes of the ASX Principles, but the Board consider them appropriate based on their individual skills.

The Audit and Risk Committee Charter which outlines the Committee's authority, duties, responsibilities and relationship with the Board is set out as Appendix B to the Corporate Governance Code. Information on the procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners, is set out in section 10 of the Corporate Governance Code.

There were 3 Audit and Risk Committee Meetings held during the year which were attended by all then-current members of the committee.

Employees only attend meetings of the Committee at the invitation of the Committee.

REMUNERATION COMMITTEE

The Remuneration Committee provides the Board with assistance in establishing relevant remuneration policies and practices for directors, executives and employees including ensuring appropriate background checks are undertaken. The current members of the Remuneration Committee are Mark Waller (Chairman), Elizabeth Coutts and Sarah Ottrey.

The Remuneration Committee's Charter which outlines the Committee's authority, duties, responsibility and relationship with the Board is set out as Appendix C to the Corporate Governance Code.

There were 3 Remuneration Committee meetings held during the year which were attended by all then-current members of the committee.

The CEO has a standing invitation to attend the Remuneration Committee however, it is open to the Committee to meet without the CEO or any other management being present.

TAKEOVER OFFER PROTOCOL

In May 2018, the Board established a procedure to be followed in the event that there is a takeover offer received. A copy of the procedure is attached as Appendix J to the Corporate Governance Code.

PRINCIPLE 4: REPORTING AND DISCLOSURE

CONTINUOUS DISCLOSURE POLICY

The Company has a Continuous Disclosure Policy that is designed to ensure compliance with the NZX Listing Rule and ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. The General Counsel is responsible for the Company's compliance with statutory and NZX and ASX continuous disclosure requirements and the Board is advised of, and considers, continuous disclosure issues at each Board meeting.

The Group's Continuous Disclosure Policy is set out as Appendix E to the Corporate Governance Code.

FINANCIAL AND NON-FINANCIAL REPORTING

For the annual and half-year accounts released publicly, the Board has received assurances from the Chief Executive Officer and the Chief Financial Officer that, in their opinion, the financial records of the Company and the consolidated group have been properly maintained; the financial statements and notes required by accounting standards for external reporting give a true and fair view of the financial position and performance of the Company and the consolidated group, and comply with the accounting standards and any further legislative requirements and the representations are based on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial reporting risks.

Deloitte acts as the Company's external auditor, attends the Company's Annual Meeting and is available to answer questions from shareholders relevant to the audit.

In relation to material exposure to key risks, set out below are the key risks, together with the Group's approach to managing those risks.

Risk	Risk management
Competition risk EBOS Group operates in a competitive environment and, as such, may experience increased competition that could adversely affect EBOS Group's sales, operating margins and market share.	The risk of increased competition in the markets that EBOS operates in is ever present and to a large extent outside the control of management. The Group has a continued focus on its operating performance to ensure that it continues to service the needs of its customers whilst at the same time delivering acceptable returns to shareholders.
Reliance on key suppliers A material proportion of EBOS Group's inbound supplies is derived from key suppliers in several of its markets. If any key suppliers ceased supplying to EBOS Group or materially reduced the amount of these supplies, this could result in a material negative impact on the financial performance of EBOS Group.	There is the possibility of competition for supply of wholesale services with suppliers choosing to bypass the existing wholesale network. The Group is focused on maintaining its critical supplier relationships by active engagement programs.
Price regulatory risk The commercial success of EBOS is partly dependent on the achievement of acceptable pricing and margins for the goods and services it provides. EBOS Group operates in a number of highly regulated industry segments, relating to the distribution and supply of pharmaceutical and medical products and as such, EBOS Group is continually exposed to the risk of new government policies, regulations and legislation that may impact on both the pricing of products and its resulting profitability.	The pharmaceutical distribution industry is subject to significant regulation and government reform. The Australian government's reforms to the Pharmaceutical Benefits Scheme (PBS) over many years has had and continues to have the effect of lowering the prices paid for medicines, thereby lowering the distribution margin earned by the Group. The Group has no control over these price adjustments and to date has offset the impact of lower distribution margin by reducing operating costs and customer discounts. As the regulated adjustment to medicine prices continues, the Group is focused on adjusting its business model that best meets its objectives, however there is no guarantee that it will always be in a position to offset the lost margin from these reforms.
Industry regulatory risk The financial performance of EBOS may be materially affected by changes in government regulations with respect to the pharmacy industry in Australia and New Zealand, including the Community Service Obligation (CSO) funding in Australia. Any material adverse change in the CSO arrangements could have a material negative impact on the financial performance of EBOS Group. These changes could include: changes to the basis of the CSO funding (including a reduction in the overall CSO funding pool or the way in which payments to eligible wholesalers are calculated), changes to the performance criteria, or the termination or expiry of Symbion's CSO deed. In addition, Symbion could fail to achieve the performance criteria resulting in restricted or no access to the CSO funding pool.	Symbion Pty Ltd, a wholly owned subsidiary of EBOS Group, is a signatory to the CSO deed which governs the arrangements under which the Group distributes medicines around Australia in return for access to a pool of funding that subsidises the distribution of pharmaceuticals to rural and remote parts of Australia. Failure to meet the obligations under this deed or other state-based legislation, may result in restricted or no access to the CSO pool of funding, fines or loss of licence to distribute pharmaceuticals. The Group reports and reviews its compliance with regulations to ensure all obligations are met. The Group's operations are also subject to separate external audit by the CSO Agency. If at any point in the future the government decided to reduce the amount of funding provided under the CSO deed then the Group may need to reconsider its business model and determine whether being a signatory to the CSO continues to be commercially viable.

Risk	Risk management
Risk of change to industry structure Future potential changes to the structure of the pharmaceutical industry in Australia or New Zealand may have a material impact on EBOS Group's margins and financial performance.	Retail pharmacy in Australia and New Zealand is subject to significant government regulation. This regulation governs the rules on both pharmacy ownership and location rules. If the government were to change either the ownership or location rules then this could have a significant impact on the Group's operations and financial position. The Group has no control over the government's approach to regulation of these matters but does actively engage with government on the benefits of the current model.
Currency risk EBOS Group's operations are primarily in New Zealand and Australia. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the primary currency for the Group's operations. The Group makes purchases in foreign currencies such as the US dollar and the Euro and is therefore exposed to foreign exchange risk arising from movements in exchange rates. EBOS Group's presentation currency is New Zealand dollars. EBOS Group is exposed to currency translation risk on conversion of earnings in Australian dollars to New Zealand dollars. This has the impact of either increasing or decreasing the expected reported earnings of EBOS Group – noting that with the greater the movement in the NZD:AUD exchange rate in any one period, the greater the volatility in the Group's reported earnings.	To manage the currency risk in respect of both revenue and expenses, EBOS Group may hedge a percentage of its net foreign currency exposures using forward foreign exchange contracts and/or foreign exchange options to reduce the variability from changes in EBOS Group's net operating income and cash flows to acceptable parameters. Such hedging does not, however, guarantee a more favourable outcome than that achieved by not hedging. The Group does not hedge the translation risk that arises upon conversion of its overseas based operations into New Zealand dollars. In order to reduce the volatility of the Group's reported results, the Group has changed its presentation currency to Australian dollars with effect from 1 July 2018.
Impairment risk EBOS Group carries significant goodwill and intangible assets on its balance sheet. Accounting policies require that these assets be regularly tested for impairment and that the underlying assumptions supporting their carrying value be confirmed. There is a risk that the carrying balances for goodwill and/or intangibles may become impaired in the future which would have an adverse effect on EBOS Group's financial position.	Whether the Group experiences a write down in the carrying value of its intangibles will largely depend on the operating performance of the business with which those intangibles are associated. The Group conducts an annual test for impairment on the value of all goodwill and indefinite life intangible assets, including the underlying assumptions using a discounted cash flow analysis.
Cyber risk EBOS Group operates a number of information technology systems. These systems may be subject to internal or external security breaches. A security breach could result in significant business disruption and cost, misappropriation of funds, loss of intellectual property and disclosure of sensitive business information or personal data. Other consequences as a result of a security breach could include legal or regulatory liability, loss of business and reputational damage.	The Group has in place a number of measures to manage cyber risk including: • policies, procedures and practices regarding the use of company information and IT security; • a data breach response plan to respond to, and mitigate the effects of, any instances of sensitive data breaches should they occur; and • periodic testing of user access and general system penetration testing. Notwithstanding the Group's efforts to manage this risk as outlined above, there is no guarantee that the Group will not suffer loss or damage if a security breach occurs.

PRINCIPLE 5 – REMUNERATION

DIRECTOR AND CEO REMUNERATION

The remuneration of directors for the financial year ended 30 June 2018 is set out on page 81, and for the CEO is set out on pages 78 and 79, of the 2018 Annual Report.

Should shareholder approval of director remuneration be required, the Group is committed to recommending the director remuneration in a transparent manner.

REMUNERATION POLICY

It is recognised that in order to support the business and its strategy, the Group must attract and retain people of a high calibre. Accordingly, in May 2018, the Board approved a Remuneration Policy which codified the Group's existing remuneration practices in respect of directors, the CEO and certain senior management.

The Group's Remuneration Policy is set out as Appendix G to the Corporate Governance Code.

In relation to the Group's senior executives, they are appointed by the CEO and their key performance indicators contain specific financial and other objectives. These KPIs are reviewed annually by the CEO and noted by the Remuneration Committee. The performance of the EBOS Group senior executives against these objectives is evaluated annually.

In accordance with the Group's Remuneration Policy the relative weightings of the remuneration of the CEO and his direct reports in the 2018 financial year is as follows:

Chief Executive Officer	53% fixed remuneration 34% short term incentive 13% long term incentive
CEO Direct Report - LTI participation	64% fixed remuneration 30% short term incentive 6% long term incentive
CEO Direct Report - no LTI participation	75% fixed remuneration 25% short term incentive

LTI SCHEME

EBOS operates a long term incentive share plan for senior executives. Under the rules for the plan, a participating executive must not enter into an arrangement with anyone, including a derivative or hedging arrangement, if the arrangement would have the effect of limiting the exposure of the participant to risk relating to unvested shares.

PRINCIPLE 6 – RISK MANAGEMENT

EBOS Group defines risk management as the identification, assessment and treatment of risks that have the potential to materially impact the Group's operations, people, and reputation, the environment and communities in which the Group works, and the financial prospects of the Group.

EBOS Group's risk management framework is tailored to its business, embedded largely within existing processes and aligned to the Company's objectives, both short and longer term. Given the diversity of the Group's operations, a wide range of risk factors have the potential to affect the achievement of business objectives.

The Company has established the Audit and Risk Committee whose purpose is to, among other things, assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to identifying and monitoring material business risks. The functions of the Audit and Risk Committee are described in the Audit and Risk Committee Charter which is set out as Appendix B to the Corporate Governance Code.

The members of the Audit and Risk Committee and their independence is noted on page 21 of the 2018 Annual Report and the number of times they met is noted on page 81 of the 2018 Annual Report.

The management team reports to the Board and/or the Audit and Risk Committee on whether the Company's material business risks are being managed effectively.

The Audit and Risk Committee is required to review the Company's risk management framework annually to satisfy itself that it continues to be sound, with the last such review undertaken in August 2018.

HEALTH AND SAFETY RISK MANAGEMENT

EBOS Group aims to provide workplaces that are safe and healthy. It seeks to achieve this aim by:

- **Implementing a workplace health and safety management system.**
  EBOS Group has implemented a management system comprising key policies and procedures to manage health and safety risks. The system is periodically reviewed to ensure continual improvement.
- **Identifying and managing its workplace health and safety risks.**
  The Group has implemented a systematic approach to the identification, assessment and control of hazards in the workplace. This approach typically includes workplace inspection, risk assessment and training. Individual risk management programs have been implemented for our critical risks, being working at height and traffic management.
- **Reporting incidents, injuries and near misses.**
  The Group has an online incident reporting system which assists with the timely reporting and follow up of incidents, injuries and near misses across all workplaces.
- **Provision of information, instruction and training.**
  Appropriate training on health and safety requirements is provided to the Board, management and site personnel.
- **Reporting on safety measures and activities.**
  Workplace health and safety personnel provide the Board and senior management with regular reports on the Group's health and safety performance, including lost time injury frequency rates (LTIFR), total recordable injury frequency rates (TRIFR), incidents, training and key activities coordinated by the health and safety team.

PRINCIPLE 7 – AUDITORS

The EBOS Group external auditor, Deloitte, was reappointed on 27 October 2015. Deloitte is invited to all Audit and Risk Committee meetings and all Audit and Risk Committee papers are made available to Deloitte. The Audit and Risk Committee Charter sets out the framework for EBOS Group's relationship with its external auditor.

Deloitte attends the Company's Annual Meeting and a representative is available to answer questions from shareholders relevant to that audit at, or ahead of, the Annual Meeting.

The Company does not have an internal audit function other than the oversight undertaken by the Audit and Risk Committee. However, the Company has appointed KPMG to act as the Company's internal auditor by reviewing specific areas of the business each year under a program approved by the Audit and Risk Committee to provide the Company with an independent and objective evaluation of the Company's management of risk.

PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

Respecting the rights of shareholders is of fundamental importance to the Company and a key element of this is how the Company communicates to its shareholders. To this end, the Company recognises that shareholders must receive relevant information in a timely manner in order to properly and effectively exercise their rights as shareholders.

Information is communicated to shareholders in the Annual Report and the Interim Report. Investors are provided with information on the Company from its website. The website contains recent NZX and ASX announcements and reports. Shareholders are also given the option to receive communications from, and send communications to, the Company and its security registry electronically.

The Company has an investor relations program, which aims to provide information that will allow existing shareholders, potential shareholders and financial analysts to make informed decisions about the Company. This program is governed by a set of shareholder participation principles that are designed to promote effective communication with shareholders and encourage shareholder participation at general meetings. These principles are set out in section 12 of the Corporate Governance Code.

The Board encourages full participation of shareholders at the Company meetings to ensure a high level of accountability and identification with the Group's strategies and goals, including encouraging shareholders to attend meetings, giving advanced notice of the dates of all scheduled meetings, inviting shareholders to submit questions in advance and allowing time at meetings for shareholders to speak on any resolutions and ask questions of the Board. The notice of meeting for any annual meeting is despatched at least 28 days prior to the meeting.

The Board acknowledges NZX Code Recommendation 8.4 which states that shareholders should have one vote per share of the company and the commentary that votes should be conducted by poll. The Group's practice has been to allow for voting by way of a show of hands however it has in place processes to call a poll should the Chairman be of the view that a vote on a show of hands does not reflect the proxy votes submitted prior to the meeting.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at Addington Raceway Events Centre, 75 Jack Hinton Drive, Addington, Christchurch, New Zealand, on Tuesday, 16 October 2018.

EBOS
GROUP LIMITED

www.ebosgroup.com