

# CORPORATE GOVERNANCE STATEMENT

This statement summarises the corporate governance policies and procedures adopted by the Board and discloses the extent to which the Company has followed the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") during and since the reporting period.

The Company's corporate governance principles, details of which can be found on the Company's website ([www.acrux.com.au](http://www.acrux.com.au)), comprise:

- ▶ statement of corporate governance principles
- ▶ code of conduct
- ▶ Board Charter
- ▶ Audit and Risk Committee Charter
- ▶ Human Capital and Nomination Committee Charter
- ▶ continuous disclosure and shareholder reporting policy
- ▶ share trading policy
- ▶ whistle-blower policy
- ▶ diversity policy

## 1. The Board of Directors

### 1.1 Board Role and Charter

The Board has the primary responsibility for guiding and monitoring the business and affairs of the Company, including compliance with the Company's corporate governance objectives. The Board's role is set out in the Board Charter, which establishes the relationship between the Board and Management and describes their respective functions and responsibilities. The Board is responsible for the oversight and performance of the Company, including matters such as:

- a. evaluating, approving and monitoring the strategic and financial plans and performance objectives of the Company;
- b. evaluating, approving and monitoring the annual budgets and business plans;
- c. evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions including the issue of any securities of the Company;
- d. monitoring and approving all financial reports and all other reporting and external communications by the Company;
- e. evaluating Board and individual Director performance;
- f. appointing, removing and managing the performance of, and the succession planning for, a Chief Executive Officer or an Executive Director;
- g. overseeing and ratifying the terms of appointment including remuneration and, where appropriate, ratifying removal of Senior Management;
- h. monitoring Senior Management performance and their implementation of strategy and ensuring appropriate resources are available;

- i. monitoring the Company's performance in relation to maintaining appropriate standards of corporate governance;
- j. approving and monitoring the Company's risk management strategy including internal controls, accountability systems and their effectiveness.

The Board has delegated the day to day management of the Company to the Chief Executive Officer who, in turn, may delegate to Senior Management. The delegations to the Executive Director include:

- a. developing business plans, budgets and Company strategy for consideration by the Board and, to the extent approved by the Board, implementing those plans, budgets and strategy;
- b. operating the business of the Company within the parameters determined by the Board and keeping the Board promptly informed of all developments material to the Company and its business;
- c. identifying and managing operational risks and formulating strategies for managing those risks for consideration by the Board;
- d. managing the Company's financial and other reporting mechanisms and control and monitoring systems to ensure that they capture all relevant material information on a timely basis and are functioning effectively.

### 1.2 Board Composition

The Board seeks to achieve a mix of skills and diversity that enables it to most effectively carry out the functions and responsibilities set out in the Board Charter. This includes:

- ▶ commercial and technical expertise and experience gained in the pharmaceutical industry;
- ▶ expertise and experience in business management and financial markets; and
- ▶ relevant relationships in the pharmaceutical industry and in the business community.

The current Board is made up of a Chairman (Ross Dobinson), two non-executive Directors (Bruce Parncutt and Timothy Oldham) and an Executive Director (Michael Kotsanis). Ross Dobinson was a founding Director of Acrux and he has been intimately involved with the development and implementation of the Company's strategy since the Company was founded. Timothy Oldham has extensive technical development and commercialisation skills in the life sciences sector. Bruce Parncutt has comprehensive commercial skills from his 40 years in investment management, investment banking and stockbroking. Michael Kotsanis is the Managing Director and has extensive global pharmaceutical industry experience.

The names of the Directors, the dates of their appointments, their non-executive, executive or independent status and whether they will seek election at the 2015 Annual General Meeting are set out in the table below. The details of their background, skills and experience are set out on page 26 of this report.

Name	Appointed / Retired	Non-Executive	Executive	Independent	Seeking election at 2015 AGM
Ross Dobinson	Appointed 1998	No <sup>(1)</sup>	Yes <sup>(1)</sup>	No	No <sup>(2)</sup>
Bruce Parncutt	Appointed 30 April 2012	Yes	No	Yes	Yes <sup>(3)</sup>
Timothy Oldham	Appointed 1 October 2013	Yes	No	Yes	No <sup>(2)</sup>
Michael Kotsanis	Appointed 1 November 2014	No	Yes	No	No <sup>(4)</sup>

(1) Ross Dobinson held the position of Executive Chairman from 1 July 2012 until Michael Kotsanis was appointed as Chief Executive Officer on 1 November 2014

(2) Ross Dobinson was re-elected and Timothy Oldham was elected on 21 November 2013

(3) Bruce Parncutt was elected on 22 November 2012

(4) Michael Kotsanis is the Managing Director

### 1.3 Director Independence

Pursuant to the recommendations of ASX Principle 2, the Board Charter ideally requires the Board to include a majority of non-executive independent Directors, have a non-executive independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer.

The Board appointed Ross Dobinson as Executive Chairman following the departure of the former Chief Executive Officer and Managing Director at the end of the 2012 financial year. Notwithstanding the Board Charter, the Board determined that with his extensive experience, the current needs of the Company were best served by appointing Ross into an executive role. Michael Kotsanis was subsequently appointed as Chief Executive Officer on 1 November 2015. Ross Dobinson has simultaneously ceased his executive responsibilities with the Company. In accordance with the recommendation of ASX Principle 2.5 and since the appointment of Michael Kotsanis, the roles of Chair and Chief Executive Officer were not exercised by the same individual.

The Chair is responsible for the leadership of the Board, for ensuring that the Board functions effectively and, where appropriate, communicating the views of the Board to the public. The Chair sets the agendas for Board meetings and manages the conduct of meetings by facilitating open discussion between Board members, between the Board and Management and with the public.

### 1.4 Terms of Director Appointment

The non-executive Directors do not have formal letters of appointment. The Chairman and Managing Director have formal letters of appointment. Remuneration of the non-executive Directors, Managing Director and the terms of appointment of the Chairman are disclosed in the Remuneration Report.

### 1.5 Access to Information and Independent Advice

All Directors have unrestricted access to employees of the Company and, subject to the law, access to all Company records and information held by the Company, its employees and advisors. The Board receives an agenda, detailed financial and operational reports and, where relevant, reports of the Board Committees for each Board meeting.

Each Director is entitled to obtain independent professional advice at the Company's expense for the purpose of assisting them in performing their duties. A Director who wishes to obtain such advice must first obtain the approval of the Chair (which approval must not be unreasonably withheld) and must provide the Chair with the reason for seeking such advice, the identity of the person from whom the advice will be sought and the likely cost of obtaining such advice. Except in certain circumstances detailed in the Board Charter, advice obtained in this manner is made available to the Board as a whole.

### 1.6 Human Capital and Nomination Committee

The current members of the Human Capital and Nomination Committee of the Board are Timothy Oldham (Chair), Bruce Parncutt and Ross Dobinson. Ross Barrow held the position of Chair until he resigned on 25 February 2015. Ross Dobinson joined the Committee on 6 July 2015.

Since our last Annual Report, the Committee met once on 6 July on 2015, with all members attending. Members of the Committee are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Management and advisers and the external auditors.

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The Committee's role, which is set out in its Charter, in general terms is to:

- a. establish a formal and transparent procedure for the selection and appointment of new Directors to the Board;
- b. identify suitable candidates to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board;
- c. consider processes for the orientation and education of new Directors and developing ongoing policies to facilitate continuing education and development of Directors;
- d. periodically assess the skills required for each Director to discharge competently the Director's duties;
- e. regularly review the structure, size and composition of the Board and the effectiveness of the Board as a whole;
- f. establish and conduct an appropriate evaluation of the Board's process and of existing Directors, including an evaluation of whether each Director is contributing the time required of him or her for Board duties;
- g. recommend to the Board a policy and framework for Senior Management's remuneration;
- h. review and monitor the implementation of the human resources plan of the Company and succession planning for Senior Management; and
- i. review and recommend to the Board the total individual remuneration package of each member of Senior Management, including any bonuses, incentive payments, and participation in any share or share option plans in accordance with the policy and framework for Senior Management's remuneration.

In accordance with the recommendations of ASX Principle 2.4, the Committee's Charter further provides that, where practical, a majority of the Committee must be independent non-executive Directors and the Chair must be a non-executive Director who is not the Chair of the Company. Executive Directors may not be members of the Committee. A further recommendation of ASX Principle 2.1 is that the Committee have at least 3 members. During the period 26 February to 5 July 2015, the Committee was made up of 2 members. On 6 July 2015 the Company appointed Ross Dobinson as a third member of the Human Capital and Nomination Committee. Mr. Dobinson relinquished executive responsibilities effective 1 November 2014.

The Company's Code of Conduct, which has been in place since 2005, contains a principle of equal opportunity to be applied in all human resource decisions and in the workplace environment. The Committee has supplemented the Code of Conduct principle by adopting a formal diversity policy. However, the Committee has not yet set measurable objectives for gender diversity. The workforce at Acrux is small and the majority of positions require specialist qualifications and experience. The Committee believes specific diversity objectives are impractical at this time.

At the date of this report, Acrux's workforce numbered twenty four people, fifteen (63%) of whom were female. The Senior Management team consists of three female and one male members, while the four current Board members are male. The Committee and the Board will review the potential need for formal diversity objectives in future as the Company evolves.

### 1.7 Audit and Risk Committee

The current members of the Audit and Risk Committee are Bruce Parncutt (Chair), Timothy Oldham and Ross Dobinson. Bruce and Tim held these positions during the financial year while Ross Dobinson joined the Audit and Risk Committee on 12 August 2015 to ensure the Committee contained at least 3 members. Ross Barrow was a member of the Audit and Risk Committee until he resigned on 25 February 2015. Members are chosen having regard to their skills and experience in relation to the matters for which the Committee is responsible. Members of the Committee have unrestricted access to company records, Senior Management, advisers and the external auditors.

The Committee's role, as set out in its Charter, in general terms is:

- a. overseeing the Company's system of financial reporting for the purpose of safeguarding its integrity, including viewing all regular financial reports and other formal announcements relating to the Company's financial performance prepared for release to the ASX, regulators and the public before making appropriate recommendations to the Board;
- b. determining the extent of internal audit activities required and monitor the effectiveness of those activities (note that the Committee has determined that the Company, due to its size, does not presently warrant establishing a separate internal audit function);
- c. monitoring the performance and activities of the external auditor including:
  - ▶ overseeing the process for the appointment, reappointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;
  - ▶ assessing the performance and independence of the external auditors and the quality of the audit work performed;
  - ▶ requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
  - ▶ reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of Management and also meeting with the external auditors as requested by the Board, the Committee or the external auditors; and
  - ▶ receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services.

- d. overseeing and reviewing the Company's financial and risk Management compliance and internal control framework including:
- overseeing the creation, implementation and maintenance of the risk management system of the Company and its controlled entities and their internal control framework, including information systems;
  - reviewing the effectiveness of the Company's implementation of its risk management systems and internal controls on an ongoing basis and reviewing the outcome of any non-financial audits;
  - requiring Management to report to the Board at least annually on whether the Company's material business risks are being managed effectively;
  - developing an understanding of the overall business environment, relevant laws and codes of importance to the Company and the programs that the Company has in place to provide reasonable assurance of compliance;
  - reviewing the Company's occupational health and safety policies and ensuring regular reporting to the Committee on issues related to occupational health and safety;
  - reviewing insurance coverage and claims trends;
  - ensuring that the Chief Executive Officer and the Chief Financial Officer state in writing to the Board annually that:
    - i. the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards;
    - ii. the statement in (i) above is founded on a sound system of risk management and control which implements the policies adopted by the Board; and
    - iii. the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

The Board has received the report from Management referred to above, advising whether the Company's material business risks are being managed effectively. The Board received the statement in writing referred to above from the Chief Executive Officer and the Chief Financial Officer on 12 August 2015.

In accordance with the recommendations of ASX Principle 4.1, the Committee's Charter provides that the Committee have at least three members, Executive Directors may not be members of the Committee, a majority of the Committee must be independent Directors and the Chair must not be the Chair of the Company. During the period 26 February to 11 August 2015, the Committee was made up of 2 members. On 12 August 2015 the Company appointed Ross Dobinson as a third member of the Audit and Risk Committee. Mr. Dobinson relinquished executive responsibilities effective 1 November 2014.

### 1.8 Director and Senior Management Remuneration and Performance

The remuneration structure for Senior Management and Directors and the amounts paid to each during the year are set out in the Remuneration Report section of the Directors' Report on page 30.

Non-executive Directors are remunerated by way of fees only and do not participate in executive remuneration schemes, nor do they receive options, bonus payments or retirement benefits (other than statutory superannuation payments).

At the end of each financial year, the performance of Senior Executives against their personal goals is assessed and personal goals and development plans for the next financial year are set, to be aligned with the Company's objectives. The review of Senior Management team members is carried out by the Chief Executive Officer and the results are subject to further review and approval by the Human Capital and Nomination Committee. The review of the Chief Executive Officer's performance is carried out by the Human Capital and Nomination Committee and the Committee's remuneration recommendations are then approved by the Board. A performance evaluation in accordance with this process was undertaken in respect of the year ended 30 June 2015. A formal review of the performance of the Board and its Committees was not undertaken during the year ended 30 June 2015.

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## 2. Disclosure and Communication

### 2.1 Continuous Disclosure

The Board has approved a written continuous disclosure policy to ensure compliance with the ASX Listing Rules continuous disclosure requirements. This policy:

- a. gives guidance as to the information that may need to be disclosed;
- b. gives guidance for dealing with market analysts and the media;
- c. establishes regular reminders to Directors and Senior Management to actively consider whether there is any price sensitive information which needs disclosure;
- d. allocates responsibility for approving public disclosures and shareholder communications.

### 2.2 Communications with Shareholders

The Board has approved, as part of the continuous disclosure policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders through a number of channels including:

- a. annual and half-yearly reports;
- b. regular shareholder updates conducted by teleconference;
- c. media releases, public announcements and investor briefings; and
- d. annual general meetings.

All the above communications are posted on the Company's website ([www.acrux.com.au](http://www.acrux.com.au)). Shareholders are encouraged to receive shareholder materials electronically and can do so by visiting our investor centre, located on the Company's website.

In addition the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunities for informed shareholder participation at these meetings. Where possible the Company will comply with the ASX Best Practice Guidelines for the content of notices of meeting. Further, the external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

## 3. Share Trading

Under the Company's share trading policy all employees and Directors of the Company and its related companies are prohibited from trading in the Company's shares if they are in possession of inside information. In addition, the Directors, Senior Executives and all other employees are prohibited from trading in the Company's shares during the period from the end of the financial year to the release of financial results to the market.

The Directors, the Company Secretary, persons reporting directly to the Chief Executive Officer (and their associated persons) and all other employees may not trade in shares in the Company without the approval of the Company Secretary (or the Chair in the case of the Company Secretary) and only if they have first given a statement that they are not in possession of material non-public information. Such approval expires after five business days.

## 4. Conduct and Ethics

The Directors and Management of the Company and its controlled entities are committed to observing high standards of ethics and behaviour in all of the Company's activities, including the Company's interaction with its shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates.

The Company has adopted a Code of Conduct which provides the ethical and legal framework for how the Company will conduct its business and how the Company will relate to shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates. Issues covered by the Code of Conduct are:

- ▶ values
- ▶ compliance with laws
- ▶ fair dealing
- ▶ confidentiality and protection of Company assets
- ▶ conflicts of interest
- ▶ shareholders and the financial community
- ▶ trading in Company securities
- ▶ equal opportunity
- ▶ health, safety and environment
- ▶ reporting non-compliance and grievances
- ▶ compliance with taxation laws
- ▶ bribes and financial inducements
- ▶ political donations

In addition the Company has adopted a whistleblower policy. The purpose of this policy is to encourage the reporting of conduct by employees of the Company and other persons with whom the Company deals closely where the interests of others, including the public, or of the Company itself are at risk. The conduct covered by the policy is conduct that is:

- a. illegal, dishonest, fraudulent or corrupt;
- b. in breach of Commonwealth or state legislation or local authority by-laws;
- c. in breach of applicable industry practices, such as Good Laboratory Practice, Good Clinical Practice or Good Manufacturing Practice;
- d. unethical (being either a breach of the Company's Code of Conduct or generally);
- e. gross mismanagement;
- f. a serious or substantial waste of resources;
- g. an unsafe work practice;
- h. failure to comply with agreements with the Company's commercial partners;
- i. a breach of proper environmental practice;
- j. other serious improper conduct;
- k. any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company