



Phosphagenics

**Phosphagenics Limited**

**Corporate Governance Statement, 2014**

This statement summaries the corporate governance policies and procedures adopted by the Phosphagenics' board of directors ("Board") and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principals and Recommendations ("ASX Principles") during and since the reporting period. The Board aims to ensure the Company operates with a corporate governance framework and culture that is relevant, practical and cost effective for the current size and stage of development of the business.

## **Principle 1: Lay solid foundations for management and oversight**

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### **Relationship between Board and Management**

The relationship between the Board and senior management is critical to the group's long term success. The board acts in the best interests of the Company as a whole and is accountable to shareholders for the overall direction, management and corporate governance of the Company and the Group.

### **Responsibilities of the Board**

The responsibilities of the Board are outlined in the Board Charter. The responsibilities of the Board include:

- (a) Strategic Issues
  - Approving management's corporate strategy and performance objectives;
  - Providing strategic advice to management;
  - Monitoring performance and implementation of strategy and ensuring appropriate resources are available.
- (b) Shareholding items
  - Issuing shares, options or conditional rights;
  - Determining the amount of dividend.
- (c) Financial items
  - Approving and monitoring financial and other reporting;
  - Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
  - Reporting to shareholders.
- (d) Risk and control
  - Overseeing groups control and accountability system;
  - Reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks are in place.
- (e) Board and senior management
  - Appointment, performance assessment and, if necessary, removal of CEO;
  - Ratifying appointment and, where appropriate, removal of CFO and Company Secretary;
  - Ratifying other senior executive appointments, organisational changes and senior management remuneration policies and practices;
  - Approving succession plans for management;
  - Monitoring performance of the board both collectively and individually;
  - Recommending directors for nomination and removal.
- (f) Other Board responsibilities
  - Monitoring and ensuring compliance with best practice corporate governance requirements;
  - Approving board committee charters;

### **Responsibilities of the CEO**

Responsibility for day to day management and administration of the Group is delegated by the board to the chief executive officer and the executive team. The Chief Executive Officer ("CEO") manages the Group in accordance with the strategy, plans and policies approved by the board.

### **CEO and Senior Executive Performance**

A new performance management system was introduced from July 2014, prior to this annual assessments were undertaken at December each year. The first performance assessment under this new system was undertaken in February 2015. The full process for performance management is described in the Remuneration Report under f) Performance review and development on page 8 of this report.

## Principle 2: Structure the Board to add value

The Board seeks to achieve a mix of skills and diversity that it enables it to most effectively carry out its functions and responsibilities. The Board has four members, as set out in the table below. Details of the relevant skills, experience and expertise of each Board member are set out on page 1 of this report.

	Appointed	Role	Independent	Committees
L Gozlan	28 February 2014	Chairman	Yes	Audit and Risk, Remuneration, Nomination
G Cauwenbergh	28 February 2014	Non-executive director	Yes	Audit and Risk, Remuneration, Nomination
N Drona	28 February 2014	Non-executive director	Yes	Audit and Risk, Remuneration, Nomination
H Rosen	June 1999	Managing Director	No	

### Board composition

The company's Constitution provides for the appointment of a minimum of three directors and a maximum of eight. In accordance with current practice, the Board Charter requires a majority of directors to be independent.

The company aims to ensure that the board has a mix of characteristics, skills, diversity, and experience relevant to the business and associated business risks of Phosphagenics. The Company is also keenly aware of the role diversity plays in the success of our society and intends to strive in the years ahead to develop the Board composition to be a reflection of that diversity. Similar to any other biotechnology growth company, our ideal board is not dictated by a formula but is driven by the particular and current and medium-term needs of our organization. We continue to strive for a board that has a balanced membership encompassing strategic, financial, commercial, operational, and governance competencies that can help guide the company to build shareholder value going forward.

### Directors' independence

An independent director must be independent of management, be free of any business or other relationship and otherwise meet the criteria for independence set out in the ASX Principles.

Under these criteria the Board has determined that all non-executive directors, which form a majority of the board, were independent at the date of this report.

The Board assesses the independence of directors as and when required.

### Term in office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following their last election, and that one third of non-executive directors (or nearest to one third) retire at every annual general meeting and be eligible for re-election.

### Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives. The Board has set out its reserved functions, as detailed in Principal 1, and delegated to the CEO the day to day business operations in accordance with the strategic objectives as approved by the Board.

The current Chairman, Mr Gozlan, is an independent non-executive director appointed in 2014. The CEO, Mr Rosen, was appointed as director in 1999 and as CEO in 2005. Mr Rosen announced his intention to step-down as CEO at the 2014 AGM and on 14 January 2015 Dr Murdoch was appointed CEO.

In accordance with current practice, the Board Charter requires the role of Chairman and CEO to be separate.

### **Independent professional advice**

Directors and Board committees have the right to seek any independent professional advice they consider necessary to fulfil their responsibilities and in order to exercise independent judgement. Subject to consent by the Chairman, which will not be unreasonable withheld, the company will pay the director's costs.

### **Nomination committee**

The Board established the nomination committee in March 2014 and is composed of three directors, the majority independent, and is chaired by an independent director. Previously the function of the nomination committee was undertaken by the full Board. At the date of this report the committee consisted of the following members:

Dr G Cauwenbergh (Chairman)  
Mr L Gozlan  
Mr N Drona

Details of these directors' attendance at committee meetings are set out in the directors' report on page 5.

A charter for the nomination committee was approved by the Board in February 2015. The charter of the nomination committee is to:

- develop criteria for board membership and identify specific individuals for nomination;
- establish processes for review of performance of individual directors and the board as a whole;
- setting and reviewing on an annual basis measurable objectives for diversity and monitoring implementation plans;
- reviewing company's succession planning of the board, CEO and senior management.

The committee is developing a skills matrix, setting out the mix of skills and diversity the Board is looking to achieve in its membership. The nomination committee will use this matrix to identify a list of candidates with appropriate skills and experience. The committee will make recommendations to the Board on candidates it considers appropriate for appointment. A candidate may be interviewed by all Board members. In 2014, three new directors were appointed to the Board in February and approved by the shareholders at the May annual general meeting. In 2014 the committee continued its search for new potential candidates whilst the Board focused on the recruitment of the CEO.

When an existing director is required to stand for re-election, the nomination committee also reviews the range of skills, experience and expertise on the Board.

### **Performance assessment**

The Board undertakes an annual self-assessment of its performance using a questionnaire. Each director is asked to consider matters such as strategies, reporting and control, management, board meetings and the composition and functioning of the board. The questionnaires are collated by the company secretary and reviewed by Chairman of the Board. The outcomes and recommendations are discussed by the Board.

The Board undertook its performance assessment in February 2015 conducted in accordance with these procedures.

## **Principle 3: Promote ethical and responsible decision making**

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### **Code of Conduct**

The directors are committed to making positive economic, social and environmental contributions, while complying with all applicable laws and regulations and acting in a manner that is consistent with the principals of honesty, integrity, fairness and respect. The company has established a code of conduct to establish clear standards against which to guide decision making and hold itself accountable. The code provides a set of guiding principles covering employment practices, responsibility to shareholders and financial markets, equal opportunity, harassment and bullying, conflicts of interest, use of company resources and disclosure of confidential information. The code of conduct is available on the company's website.

### **Diversity Policy**

The company recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The company believes its diverse workforce is the key to continued growth and improved productivity and performance. The company actively values and embraces diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally

and fairly, and where discrimination, harassment and inequality are not tolerated. While the company is committed to fostering diversity at all levels, gender diversity continues to be a priority for the group.

In May 2011 the Board approved a Diversity Policy which outlined the measurable objectives for achieving diversity. This policy was updated in February 2015 and is available on the company's website.

In 2014 the objectives for diversity were measurement of gender diversity and continuation of promotion of flexibility in working hours. The table below outlines gender diversity within Phosphagenics:

	Whole organisation	Senior Management	Senior Executive	Board
Total	41	8	5	4
Female	20	2	1	0
% Female	49%	25%	20%	0%

#### **Principle 4: Safeguard integrity in financial reporting**

##### **Audit and risk committee**

The Company has established an audit and risk committee comprising three independent non-executive directors. The chairman of the committee must be an independent director who is not chairman of the board. At least one director should have relevant financial qualifications or financial experience. At the date of this report the committee consisted of the following members:

Mr N Drona (Chairman)

Dr G Cauwenbergh

Mr L Gozlan

Details of these directors' qualifications and attendance at committee meetings are set out in the director's reports on pages 1 to 2. The audit and risk committee members are financially literate and have an appropriate understanding of the industry in which the group operates. The committee meets at least two times per year and has direct access to the Company's auditors.

The charter of the committee is to:

- exercise oversight of the compliance of the Company's financial statements with the requirements of the Corporations Act and any other mandatory professional or statutory reporting requirements;
- oversee effectiveness of the company's risk management and internal control systems including the Company's risk profile;
- recommend to the Board the appointment, removal and remuneration of external auditors, and review their terms of engagement, the scope and quality of their audit and assess performance;
- consider the independence of the external auditor on an on-going basis;
- report to the Board on matters relevant to the committee's role and responsibilities.

In March 2014 the audit and risk committee recommended to change the Company's external auditor and consequently undertook a tender process with a number of leading audit firms. The selection process involved written proposals and panel interviews, after which PricewaterhouseCoopers was recommended to the Board, and subsequently to the shareholders at the May 2014 annual general meeting. The current audit partner will be rotated by the audit firm every five years as governed by audit standards.

The audit and risk committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

#### **Principle 5: Make timely and balanced disclosure**

##### **Continuous disclosure**

The Company has a continuous disclosure policy to ensure compliance with ASX Listing Rules. A copy of this policy is available on the company's website. This policy:

- gives guidance on the information that may need to be disclosed;
- allocates responsibility for approving public disclosures;

- establishes procedures to ensure compliance;
- gives guidance for dealing with the media, public and analysts.

## **Principle 6: Respect the right of shareholders**

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### **Communication with shareholders**

The Board has approved a Shareholder Communication Policy to ensure the shareholders and the wider community are informed of all major developments affecting the company in a timely and effective manner. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders in a number of ways, including:

- annual and half-yearly reports;
- updates on operation and developments;
- announcements on the company's website;
- market briefings; and
- presentations at general meetings.

All the above are posted on the company's website ([www.phosphagenics.com](http://www.phosphagenics.com)). Shareholders are encouraged to receive shareholder material electronically, which can be established by registering on the company website.

In addition the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunity for informed shareholder participation at general meetings. The external auditor is requested to attend the annual general meeting and be available to answer questions on the conduct of the audit of the Company and preparation of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

## **Principle 7: Recognise and manage risk**

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### **Risk management**

The Board considers risk management fundamental to maintaining efficient and effective operations and generating and protecting shareholder value. The management and oversight of risk is an ongoing process integral to the management and corporate governance of the Company's business.

The Board, through its audit and risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal controls. The Company has established a risk management system which aligns with the vision, strategy, processes, technology and governance and provides for:

- appropriate levels of risk taking and acceptance;
- an effective system for management of risk across the Company;
- informed and effective strategy setting, decision making, planning and performance oversight; and
- reliable and efficient execution of operations, programs and projects.

The Company has a Risk Management Policy, a summary of which is available on the Company's website, which sets out the objectives and key principals of risk management, along with responsibilities and authorities of the Board, the audit and risk committee, the CEO, CFO, Executive Management and management. The Company has adopted a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth and development. The Board sets risk appetite and tolerance levels for the Company and reviews this annually.

The CEO, CFO and Executive Management are responsible to the Board through the audit and risk committee for the overall implementation of the risk management system. During the year management has reported to the Board as to the effectiveness of the group's management of its material business risks.

### **CEO and CFO certification**

In accordance with section 295A of the Corporations Act 2001, the chief executive officer and chief financial officer have provided a written statement to the Board that:

- that 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;
- that 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 framework and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

### **Principle 8: Remunerate fairly and responsibly**

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The Company believes having highly skilled and motivated people will align employees to the Company's strategic and business objectives and the creation of shareholder value. The ability to attract and retain the best people is critical to the Company's future success. The Board considers remuneration policies are instrumental in ensuring success.

#### **Remuneration committee**

The Board established the remuneration committee in March 2014 and is composed of three directors, the majority independent, and is chaired by an independent director. Previously the function of the remuneration committee was undertaken by the full Board. At the date of this report the committee consisted of the following members:

Mr L Gozlan (Chairman)  
Dr G Cauwenbergh  
Mr N Drona

Details of these directors' attendance at committee meetings are set out in the directors' report on page 5.

A charter for the remuneration committee was approved by the Board in February 2015, a summary of which is available on the Company's website. The charter of the remuneration committee is to:

- review and make recommendations to the Board on remuneration packages and policies applicable to Senior Management and Directors such that they ensure remuneration packages and policies attract, retain and motivate high calibre executives and ensure they demonstrate a clear relationship between performance and remuneration;
- review Senior Management packages after application of the remuneration policies;
- review currently industry best practice;
- review superannuation arrangements;
- review existing and proposed incentive schemes.

#### **Non-executive and executive remuneration**

Non-executive director fees are determined by the Board within the aggregate limit for directors' fees approved by shareholders. Non-executive directors do not receive any retirement allowances.

Executive directors and senior executives receive a mix between fixed and incentive pay, comprising both cash and eligibility to participate in equity incentive schemes. Full details of remuneration paid to non-executive and executive directors, and senior executives, are set out in the remuneration report on pages 6 to 14 of this report.

#### **Prohibition on hedging unvested entitlements**

Employees are prohibited from entering into transactions in products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes. Details in relation to this policy are contained in the Share Trading Policy which is available on the company's website.