

# Corporate Governance Statement

Starpharma Holdings Limited (“the company”) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the company’s activities on behalf of the shareholders. In developing policies and setting standards the Board considers the Australian Securities Exchange (“ASX”) Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) (“the 3<sup>rd</sup> Edition CGC Recommendations”).

The Corporate Governance Statement set out below describes the company’s current corporate governance principles and practices which the Board considers to comply with the 3<sup>rd</sup> Edition CGC Recommendations. All of these practices, unless otherwise stated, were in place for the entire financial year 2015. This Corporate Governance Statement is available on the company’s website. The company and its controlled entities together are referred to as the group in this statement.

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

### Relationship between the Board and management

The relationship between the Board and senior management is critical to the group’s long term success. The directors are responsible to the shareholders for the performance of the group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the group is properly managed.

#### 1.1 Responsibilities of the Board

The responsibilities of the Board include oversight, accountability and approval in relation to certain:

- Strategic issues
- Shareholding items
- Financial items
- Expenditure items
- Audit related items
- Board and senior management oversight and delegation

Other Board responsibilities include:

- enhancing and protecting the reputation of the group;
- overseeing the operation of the group, including its systems for control, accountability, and risk management;
- monitoring financial performance;
- liaison with the company’s auditors;
- ensuring there are effective management processes in place and approving major corporate initiatives; and
- reporting to shareholders.

Further details regarding the responsibilities of the Board are detailed in the board charter. The Board’s conduct is governed by the company’s constitution. Both documents are available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

#### 1.2 Director appointment and election

Before appointing a director or putting forward a candidate to shareholders for election, the Remuneration and Nomination Committee will undertake appropriate background checks. The Remuneration and Nomination Committee will also provide all material information which is relevant to whether or not a person should be elected or re-elected as a director to the Board for provision to shareholders (including in relation to independence and a recommendation regarding support or otherwise to the candidate’s appointment or election).

The commitments of non-executive directors are considered by the Remuneration and Nomination Committee prior to their appointment to the Board and are reviewed regularly. Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

The company’s constitution specifies that all non-executive directors must retire from office no later than three years or the third annual general meeting (AGM) following their last election (whichever is longer), and that an election of directors must take place each year. Any director, excluding the Managing Director (CEO) who has been appointed during the year must stand for election at the next AGM.

It is anticipated that non-executive directors would generally hold office for up to ten years, and shall serve a maximum of fifteen years from date of first election by shareholders. The Board, on its

initiative and on an exceptional basis, may exercise discretion to extend this maximum term where it considers that such an extension would benefit the company.

In 2014, the Board exercised its discretion to extend the maximum term in the case of Dr Peter Jenkins given the change of Chairman which took place and Dr Jenkins’ detailed knowledge of the company. Dr Peter Jenkins will retire as a director of the company at the close of the 2015 AGM and will not stand for re-election.

No new directors were appointed to the Board during FY15.

#### 1.3 Written agreements with Directors and Senior Executives

New directors receive a letter of appointment, which outlines the company’s expectations of the director in relation to their participation, time commitments and compliance with policies and regulatory requirements.

Senior executives and all employees are required to sign employment agreements which set out the key terms of their employment. All roles have formal position descriptions.

#### 1.4 Responsibilities of the Company Secretary

The Company Secretary supports the effective functioning of the Board and its committees. The Company Secretary is accountable directly to the Board, through the Chair, on all matters related to the proper functioning of the Board. The specific responsibilities of the Company Secretary are detailed in the board charter, which is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

#### 1.5 Diversity objectives and achievement

The company is committed to workplace diversity, and the Board values the level of diversity already present within the organisation, believing that continuing to promote diversity is in the best interests of the company, its employees and its shareholders.

In March 2015, the Board revised its Diversity Policy, which operates alongside the Code of Conduct and Anti-Discrimination, Bullying and Harassment policies, providing a framework for Starpharma to achieve a number of diversity objectives. The Diversity Policy is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

Independent of external corporate governance initiatives, the company has embraced a culture of inclusion and equal opportunity across diversity areas recognised as potentially impacting upon equality in the workplace, with a focus on gender but without limiting other aspects of diversity.

The company recognises the corporate benefits of diversity of its workforce and the Board, and realises the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent.

In accordance with the Diversity Policy, the Board has established measurable objectives for achieving gender diversity and has conducted an assessment of the objectives and progress in achieving them.

Objectives set by the Board for the 2015 financial year, and progress against these objectives is set out below:

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Objective	Measurement	FY15 Performance
<b>Female participation/talent pipeline</b>	Achieve greater than 40% female participation for direct reports to the CEO or senior executives (CEO minus 2).  Actively support and encourage training, networking and development opportunities for high potential employees.	45% of CEO minus 2 positions are held by females.  Professional development opportunities and options that are aligned with the company's needs and the individual's role are considered for all employees as part of the company's annual performance review process. Investments in formal/external development programs are made where possible and appropriate and in FY15, 24 different professional development programs were attended by female employees across all levels of the organisation. The company also supported participation of all female staff in a biotech industry networking initiative, which included presentations by industry role models.
<b>Equal opportunity employer</b>	Inclusion of female candidates in recruitment process for each role with female applicants, including for Board appointments.  Consistent and merit-based selection criteria and recruitment processes used when choosing successful candidates in all cases.	100% of recruitment processes considered female candidates. Of the positions advertised externally in FY15, half were filled with female candidates.  100% of successful candidates were selected on merit-based criteria after being put through a selection process.
<b>Pay parity</b>	Ensure no significant pay difference for individuals in similar roles, based on gender.	Analysis was completed of pre- and post-remuneration review "remuneration differentials to benchmarks" by gender, and confirmed there were no significant gender differences in remuneration relative to role benchmarks.
<b>Flexible working arrangements</b>	Employees working under flexible working arrangements (including part time).  Granting a majority of requests for flexible work arrangements for family responsibilities.	17% of employees work under flexible working arrangements. Specifically, 33% of our female employees work under flexible working arrangements (including part time).  100% of requests for flexible work arrangements were granted.
<b>Support a return to work after parental leave</b>	Target a return to work following primary care parental leave of 75%.	There were no employees who were due to return from primary care parental leave during FY15.

Approximately half of Starpharma's employees are female, maintaining a similar gender representation to that of previous years. The table below sets out the proportion of female employees in the whole organisation, in leadership/management roles, in senior executive positions and on the Board at July 2015.

	Whole organisation (staff and Board)	Leadership/management roles	Senior executive	Board
Total	39	19	8	6
Female	19	8	3	2
% female	49%	42%	38%	33%

It is noted that Starpharma currently has a high level of both gender and general diversity, however given the relatively small number of total employees, a change of one or few employees may have a significant impact on the company's performance in respect of the measurable diversity objectives.

Starpharma is also proud of the ethnic diversity of our employee population, with 38% of all employees born outside Australia in 9 different countries.

## 1.6 Board, committee and director performance

The performance of the Board and its committees are reviewed each year by the Chairman based on the completion of a formal feedback questionnaire by each director. The summarised results are then reported back to the Board. This performance evaluation took place in FY15.

## 1.7 CEO and senior executive performance

Performance assessments for senior executives took place during the year. Performance review timing of executives is now aligned and will take place around July each year in respect of the prior financial year. The process for these assessments is described in the remuneration report under the heading "Remuneration governance" on page 19 of this report.

## Principle 2: Structure the Board to add value

### 2.1 Board committees

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The committee structure and membership is reviewed on an annual basis. Board committees are chaired by an independent director other than the Chairman of the Board. Where applicable, matters determined by committees are submitted to the full Board as recommendations for Board decisions.

The committees established by the Board are:

- Remuneration and Nomination Committee; and
- Audit and Risk Committee.

Each committee's charter sets out its role, responsibilities, composition and structure. The committee charters are reviewed annually and are available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

Both committees report regularly to the Board and minutes of committee meetings are provided to the Board.

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## 2.1.1 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is composed of three independent non-executive directors. At the date of this report the committee consisted of the following:

Ms Z Peach (Chairman)  
Dr P J Jenkins  
Mr R Thomas

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report on pages 13 to 17.

The charter of the Remuneration and Nomination Committee deals with items, to the extent delegated by the Board, related to reviewing and making recommendations to the Board in respect of the following:

- Board and director candidate identification, appointments, elections, composition, independence, tenure and succession;
- Remuneration and incentive policies and practices generally;
- Remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors;
- Diversity related items;
- Board skills matrix;
- Background checks for director candidates; and
- Provision and oversight of induction and training and development opportunities for directors.

The Remuneration and Nomination Committee charter is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

## 2.1.2 Audit and Risk Committee

The company has established an Audit and Risk Committee comprising three independent non-executive directors. At the date of this report the committee consisted of the following:

Mr P R Turvey (Chairman)  
Mr R B Thomas  
Mr R A Hazleton

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report on pages 13 to 17.

The members of the Audit and Risk Committee between them have the financial, accounting and risk management related/technical expertise, as well as a sufficient understanding of the biotechnology industry to be able to discharge the committee's mandate effectively. The committee meets at least twice a year, and has direct access to the company's auditors.

The charter of the Audit and Risk Committee deals with items, to the extent delegated by the Board, related to reviewing and making recommendations to the Board in respect of the following:

- Annual report, half-year financial report and financial forecasts or guidance given to the market;
- Systems of risk management and internal controls;
- All aspects related to the external auditor;
- Related party transactions; and
- Insurance.

The Audit and Risk Committee charter is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

## 2.2 Board skills

The Board considers that a diversity of skills, backgrounds, knowledge, experience and gender is preferable in order to effectively govern the business. The Board and the Remuneration and Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience,

independence and knowledge necessary to discharge its responsibilities.

The Board considers that the following specific skills and experience are critical to the success of the company:

- Leadership in a relevant industry;
- Pharmaceutical/product development experience;
- Commercialisation of innovation experience;
- Governance;
- Strategy and risk management;
- Financial acumen;
- Health, safety & environment; and
- Remuneration.

The Remuneration and Nomination Committee and the Board have assessed the capabilities of the directors against the skills and experience noted above, and considers that collectively the Board has appropriate experience in each area.

## 2.3 Board members

Details of the members of the Board, their experience, qualifications, term of office and independence status are set out in the directors' report under the heading "Information on Directors". There are five non-executive directors, all of whom are deemed independent under the principles set out below, and one executive director, at the date of signing the directors' report. The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the group and directors with an external or fresh perspective; and
- the size of the Board is appropriate for the company and conducive to effective discussion and efficient decision-making.

## 2.4 Directors' independence

The board charter contains guidelines for assessing the materiality of directors' relationships that may affect their independence. These guidelines were updated during the year based on changes to the 3<sup>rd</sup> Edition CGC Recommendations. The board charter is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

Under these guidelines the Board has determined that all non-executive directors were independent at the date of this report.

The CEO is not considered independent as she holds an executive role.

## 2.5 Chairman and Chief Executive Officer (CEO)

The current Chairman, Mr Rob Thomas, is an independent non-executive director appointed in 2013 and Chairman in June 2014. The CEO, Dr Jackie Fairley, was appointed as a director and CEO on 1 July 2006. 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 established the functions delegated to the CEO. The CEO is responsible for implementing company strategies and policies, and for the day to day business operations of the group in accordance with the strategic objectives of the group as approved by the Board from time to time.

In accordance with current practice, the Board's policy is for the roles of Chairman and CEO to be undertaken by separate people.

## 2.6 Director induction and professional development

The Remuneration and Nomination Committee oversees, reviews and make recommendations to the Board in relation to the induction, training and development of non-executive directors, to ensure they have access to appropriate learning and development opportunities to develop and maintain the skills and knowledge required to effectively perform in their role as a director.

The Board receives regular updates at board meetings and board workshops which assist directors in keeping up to date with relevant market and industry developments.

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## Principle 3: Act ethically and responsibly

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### 3.1 Code of conduct

The directors are committed to the principles underpinning best practice in corporate governance, with a commitment to the highest standards of legislative compliance and financial and ethical behaviour. The company has established a code of conduct reflecting the core values of the company and setting out the standards of ethical behaviour expected of directors, officers and employees in all dealings and relationships including with shareholders, contractors, customers and suppliers, and with the company. The code of conduct is reviewed periodically and was

last updated during the year in consideration of the changes to the 3<sup>rd</sup> Edition CGC Recommendations. The code of conduct covers employment practices, equal opportunity, harassment and bullying, conflicts of interest, use of company assets, disclosure of confidential information and whistleblowing. The code of conduct is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

## Principle 4: Safeguard integrity in financial reporting

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### 4.1 Audit and Risk Committee

The company has established an Audit and Risk Committee consisting of three independent non-executive directors. Details regarding composition, meetings and charter are set out in section 2.1 and 2.1.2 of this Corporate Governance Statement.

### 4.2 CEO and CFO Declarations for financial statements

Before the Audit and Risk Committee recommends, and the Board approves, the company's financial statements for the half year or full year, the CEO and CFO are required to provide a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

These declarations have been provided by the CEO and CFO to the Audit and Risk Committee and the Board in respect of the

2015 half year financial statements and the 2015 full year financial statements which are included in this annual report.

### 4.3 External auditors

The company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. The current auditors, PricewaterhouseCoopers, have been the external auditors of the company since it commenced operations. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years, and the current audit engagement partner assumed responsibility for the conduct of the audit this financial year. An analysis of fees paid to the external auditors is provided in note 18 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee. The external auditor attends each AGM and is available to answer questions shareholders may have in relation to the conduct of the audit and the preparation and conduct of the Auditor's Report.

## Principle 5: Make timely and balanced disclosures

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### 5.1. Continuous disclosure

The company has developed a continuous disclosure and shareholder communication policy to ensure compliance with the ASX Listing Rules and to facilitate effective communication with shareholders.

The Board has appointed the Company Secretary as the person responsible for disclosure of information to the ASX. The CEO and Company Secretary are responsible for ensuring that all announcements made by Starpharma to the ASX are factual, do not omit material information, and are expressed in a clear and objective manner.

The policy also sets out the requirements for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to

the ASX, analysts, brokers, shareholders, the media and the public.

Procedures have been established for reviewing whether there is any price sensitive information that should be disclosed to the market or whether any price sensitive information may have been inadvertently disclosed.

Except in exceptional circumstances, all ASX announcements (other than standard compliance announcements or newsletters with no new material information) require the approval of the Chairman, or another non-executive director in his absence.

A copy of the policy is available on the company's website at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

## Principle 6: Respect the rights of shareholders

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### 6.1 Information on website

The company provides ready access to its shareholders and members of the public to information about the company and its governance on its website at [www.starpharma.com](http://www.starpharma.com)

### 6.2 Communication with investors

The company recognises that shareholders may not be aware of all company developments at all times, notwithstanding the release of information to the ASX in accordance with the company's continuous disclosure policy and the law. In addition to ensuring that all ASX announcements and company reports are available on the company's website as soon as possible following confirmation by the ASX of receipt of the announcement, the company will send to each shareholder who has so requested, either by post or email to their nominated address, annual reports and company newsletters.

ASX announcements are also posted on the OTCQX website ([www.otcqx.com](http://www.otcqx.com)) in order to provide timely disclosure to US investors trading in the company's Level One ADRs (OTCQX:SPHRY). The company's website also has an option for shareholders to register their email address for direct email

updates which the company may send for material company matters which have previously been released to ASX and OTCQX.

### 6.3 Participation at Annual General Meetings

The Annual General Meeting (AGM) is generally held in November each year. The Notice of Meeting and related Explanatory Notes are distributed to shareholders in accordance with the requirements of the Corporations Act.

The AGM provides an opportunity for the Board to communicate with shareholders through the Chairman's address and the CEO's presentation.

Shareholders are given the opportunity, through the Chairman, to ask general questions of the Board. Shareholders who are unable to attend the meeting in person may submit written questions together with their proxy form, to be put to the meeting by the Chairman. The external auditor attends each AGM and is available to answer questions shareholders may have in relation to the conduct of the audit and the preparation and conduct of the Auditor's Report.

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## 6.4 Electronic communication with the company and its share registry

Shareholders and other interested parties are able to subscribe to Starpharma news via the company's website or to certain information via the company's share registry. Significant ASX announcements and financial reports are emailed to subscribers promptly following confirmation by the ASX of receipt of the relevant report or announcement.

## Principle 7: Recognise and manage risk

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### 7.1. Audit and Risk Committee

The company has established an Audit and Risk Committee consisting of three independent non-executive directors. Details regarding composition, meetings and charter are set out in section 2.1 and 2.1.2 of this Corporate Governance Statement.

### 7.2 Risk assessment and management

The Board, through the Audit and Risk Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The company operates in a challenging and dynamic environment, and risk management is viewed as integral to realising new opportunities as well as identifying issues that may have an adverse effect on the company's existing operations and its sustainability. The company is committed to a proactive approach towards risk management throughout its entire business operations. The Board aims to ensure that effective risk management practices become embedded in the company's culture and in the way activities are carried out at all levels of the company. The Board and management recognise the importance that risk management plays in ensuring the business is able to fully capitalise on the opportunities available to it, as well as mitigating potential loss. Health and safety are considered to be of paramount importance and are the focus of significant risk management activities within the company. Other risk areas that are addressed include product liability, business continuity and disaster recovery, reputation, intellectual property, product development and clinical trials. Adherence to the code of conduct is required at all times and the Board actively promotes a culture of quality and integrity. The Board has required management to design and implement a risk management and internal control system to manage the group's material business risks. The risk management policy, sets out policies for the oversight of material

Shareholders are also able to contact the company or submit questions or comments to the company's investor relations email address, and where appropriate, a response will be provided. No price sensitive information will be provided unless previously released to the ASX.

business risks, and describes the responsibilities and authorities of the Board, the Audit and Risk Committee, the CEO, CFO & Company Secretary, and the senior management team. A summary of the policy is available on the company's website at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)

The CEO and CFO & Company Secretary are responsible to the Board through the Audit and Risk Committee for the overall implementation of the risk management program. During the financial year management has reported to the Board as to the effectiveness of the group's management of its material risks.

### 7.3 Internal audit function

Given the size of the company, there is no internal audit function. As detailed in section 7.2, detailed risk assessments are carried out in respect of a wide range of items, and where appropriate and possible, risk mitigation strategies are implemented to minimise the chance of the risks occurring, and to minimise any impact where a risk eventuates.

### 7.4 Sustainability risks and management

The company's key economic, environmental and social sustainability risks are outlined on page 16 of the directors' report under the heading 'Material Business Risks'.

In addition to the risk assessment and management strategies outlined in section 7.2 and set out in the Corporate & Social Responsibility Report on page 12 of the annual report, the company utilises a number of risk mitigation strategies including employing qualified staff and consultants, external advisors, maintaining a portfolio/pipeline of products and applications, and holding insurance in a number of areas.

## Principle 8: Remunerate fairly and responsible

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### 8.1 Remuneration and Nomination Committee

The company has established a Remuneration and Nomination Committee consisting of three independent non-executive directors. Details regarding composition, meetings and charter are set out in sections 2.1 and 2.1.1 of this Corporate Governance Statement.

### 8.2 Non-executive and executive remuneration

Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each role has a position description which is reviewed by the CEO (or the committee in the case of the CEO) and relevant executive. Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the remuneration report on pages 18 to 33.

Executive directors and senior management receive a mix of fixed and variable pay, comprising both cash and equity incentives.

Non-executive directors receive fees only and do not receive bonus payments or equity incentives. Non-executive directors do not receive termination/retirement benefits, whereas executive directors and senior management are entitled to termination payments in accordance with the terms of their contracts (detailed on page 31).

### 8.3 Prohibition on hedging of unvested/restricted entitlements

Employees are prohibited from entering into transactions in products which limit the economic risk of any equity granted under an employee incentive scheme which are unvested or subject to a disposal restriction. Details in relation to this policy are contained in the securities dealing policy which is available at [www.starpharma.com/corporate\\_governance](http://www.starpharma.com/corporate_governance)