

Factor Therapeutics Limited

Corporate Governance Statement for the 6-month transitional period to 31 December 2017

Factor Therapeutics Limited is an Australian company listed on the Australian Securities Exchange (ASX:FTT).

As at the date of this Corporate Governance Statement, the Board of Factor Therapeutics consists of five directors, being four independent non-executive directors: Dr Cherrell Hirst, AO, Mr Tim Hughes, Dr Robert Ryan and Mr John Michailidis; and non-executive director, Dr Christian Behrenbruch. The Board considers that Dr Behrenbruch is not an independent director in the period covered by this statement due to his role as Executive Director in the period. Ms Melanie Farris is appointed company secretary.

The Board uses the guidance provided by the ASX Corporate Governance Council as a focus for the development and continuous improvement of the Company's governance framework, policies and practices.

The Appendix 4G accompanying this Corporate Governance Statement details Factor's adherence to the ASX Corporate Governance Principles and Recommendations (3rd Edition) (ASX CGCPR), covering the 6-month transitional period to 31 December 2017.

This Statement should be read in conjunction with the Directors' Report, the Remuneration Report and the Financial Report for the 6-month transitional period to 31 December 2017. The Board continues to review the corporate governance framework and practices of the Company to ensure they meet the best interests of shareholders and other stakeholders.

Principle 1: Lay solid foundations for management and oversight

Role and responsibilities of the Board and management

The role of the Board is to provide leadership and set the strategic direction of the Company, guide and monitor the management in achieving its strategic plans and oversee good governance practice. The Board is ultimately responsible to the Company's shareholders, while taking into account the interest of other stakeholders, including employees, customers, suppliers and the wider community.

The Board operates under a formal charter, which sets out its role and responsibilities and describes those matters expressly reserved for the Board's determination and those matters delegated to management. In performing its role, the Board is committed to good corporate governance practice. The [Board Charter can be found on the Company's website](#).

The CEO is responsible for implementing the Company's strategic objectives operating within the risk appetite set by the Board, and managing the day-to-day operations of the Company and its businesses. The Board maintains overall responsibility and accountability for Factor Therapeutics and its businesses.

In addition, the Board has delegated specific authority to three Board committees – the audit and risk management committee, the people and remuneration committee and the nomination committee.

All Directors have a standing invitation to attend Committee meetings where there is no conflict of interest. These Committees review matters on behalf of the Board and:

- refer matters to the Board for decision, with a recommendation from the Committee (where the Committee acts in advisory capacity); or
- determine matters (where the Committee acts with delegated authority), which it then reports to the Board.

Details of the current membership and composition of each committee are set out below. Details of the attendance of members of each committee are set out in the Directors' Report and Financial Report for the year ended 30 June 2017. The roles and responsibilities of each committee are set out in the respective committee charters, which are available at [in the Corporate Governance section of the Company's website](#).

Committee	Members	Composition
Audit and Risk Management Committee	<ul style="list-style-type: none"> Mr Tim Hughes, Chair Dr Robert Ryan Dr Christian Behrenbruch Dr Cherrell Hirst (ex officio) 	<ul style="list-style-type: none"> At least three members, and a majority of whom are independent directors; Appropriately financial literate, with at least one member who has financial expertise All members have an understanding of the industry in which the Company operates; and Chaired by an independent director who is not the Chair of the Board.
Nomination Committee	<ul style="list-style-type: none"> Dr Cherrell Hirst, Chair Mr Tim Hughes Dr Christian Behrenbruch Dr Robert Ryan 	<ul style="list-style-type: none"> At least three members, a majority of whom are independent directors; and Chaired by an independent director.
Remuneration Committee	<ul style="list-style-type: none"> Mr John Michailidis, Chair Dr Christian Behrenbruch Dr Robert Ryan Dr Cherrell Hirst (ex officio) 	<ul style="list-style-type: none"> At least three members, a majority of whom are independent directors; and Chaired by an independent director.

Board renewal and succession planning

As part of the Nomination Committee's oversight of Board succession planning, it is responsible for identifying suitable candidates to fill Board vacancies as and when they arise, or to identify candidates to complement the existing Board, and make recommendations to the Board on their appointment. The search for new directors is based on the Board's specific selection criteria, including its skills matrix, and is supported by external consultants as required.

The ASX CGCPR recommends a listed entity undertake appropriate background checks, including experience, education, personal qualities and skills, criminal record and bankruptcy history. During the year the Board undertook appropriate due diligence on the appointment of additional directors based on their referee reports and their current positions. The Board determined not to do background checks on their criminal record nor bankruptcy history in these instances. However, the Board agrees with and supports the importance of this principle and anticipates these processes will be incorporated into routine practice.

Having assessed potential candidates against the Board agreed criteria, including the potential for the candidate's skills to fit the board skills matrix and appropriately augment the existing Board's capabilities, the Nomination Committee may recommend a candidate to the Board for appointment.

Based on the recommendation from the Nomination Committee, the Board will consider the suitability of the potential candidate and reach a decision regarding appointment. Should the Board decide to invite that candidate to

join the Board, that director will receive a letter of appointment from the Company, which sets out the terms of his or her appointment consistent with the ASX Principles. Any director appointed by the Board during the year must seek election at the next annual general meeting of shareholders.

The Nomination Committee also recommends existing directors for re-election to the Board. The Board assesses the performance of the Director in determining whether that director will be recommended for re-appointment at the forthcoming AGM. If re-election is supported appropriate biographical details are provided in the Notice of Meeting in order that shareholders are able to make an informed decision.

Company Secretary

The company secretary is responsible for advising the Board and its committees on governance matters, and for ensuring that Board and committee procedures are complied with. The company secretary is accountable directly to the Board, through the chair, on all matters to do with governance and the proper functioning of the Board. All directors have access to the company secretary for advice and services. The Board approves the appointment and removal of the company secretary.

Diversity

The Board recognises that diversity is an important factor in improving and sustaining a workforce that is capable of achieving the strategic and business goals of the Group. The Board also recognises the challenges of achieving prescribed levels of diversity in a Group with a relatively small workforce.

The Company has developed a Diversity Policy that promotes a diverse work environment where it involves recognising the value of individual differences and managing them in the workplace.

A copy of diversity policy is available at [the Company's website](#).

Due to the size and nature of the Company's current operations, the policy does not at this time include specific measurable objectives for achieving gender diversity.

In the period under review, the ratio of male to female directors was 80:20%. The ratio of male to female employees across the organisation was 64:36%. Following the appointment of Dr Rosalind Wilson as Chief Executive Officer, the ratio of male to female employees in senior management was 50:50%.

Board and director performance appraisal

A performance appraisal of the Board, its committees and individual directors is conducted on an annual basis. Periodically, an independent consultant is engaged to facilitate the process. The Board Chairman with the assistance of the Company Secretary conducts appraisals in the years when an independent consultant is not engaged.

Generally, the Board conducts the following review process, which includes:

- an assessment by each individual director of the Board's and its Committees' effectiveness in meeting the requirements of their charters; and
- the contribution of individual directors.

Following this

- the Board Chairman may meet further with individual directors;
- performance assessments are summarised in a report for the Board as appropriate; and
- the Board as a whole discusses and considers the report and agrees on any recommendations as necessary.

In the event that the review is facilitated by an external consultant, the results may also be benchmarked against other companies.

In June 2017, the Board conducted a formal and structured evaluation for evaluating the performance of the Board, its committees and individual directors. The results of the questionnaire and an analysis of these results were reported to the Board.

Senior executives' performance

The evaluation of all senior executives is conducted on annual basis by the Board through the CEO. The Key Performance Indicators (KPIs) are carefully considered by the Remuneration Committee, which evaluates the CEO and senior executives' performance and makes recommendations to the Board.

Factor aims to reward management with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to align the interest of management with those of shareholders, and ensure that total remuneration is competitive by market standards. Factor's remuneration report, which details the Company's policy on the remuneration of key management personnel, is set out on pages 9 – 14 of the Financial Report for the 6-month transitional period to 31 December 2017.

Principle 2: Structure the Board to add value

Board size and composition

Factor Therapeutics' Constitution provides that the Board shall comprise a minimum of three directors.

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, as at the date of this report, has five members, with the majority being independent. Details of the directors during the year, including their qualifications, date of appointment and independent status are set out in the table below.

Name of Director	Term in Office	Qualifications	Status
Dr Cherrell Hirst AO (Chair)	Non-Executive Director since 30 Jun 2009 Chair of the Board since 7 Apr 2015	FTSE, MBBS, BEdSt, D. Univ (Hon), FAICD	Independent
Mr Tim Hughes	Non-Executive Director since 1 Nov 2014	B.Sc.(Hons), B.A.(Hons), M.Nat.Res.	Independent
Dr Christian Behrenbruch	Executive Director since 12 Oct 2015	FIEAust, B.Eng(Hons), D.Phil(Oxon), MBA, JD, GAICD	Not independent, due to executive director status in the period under review
Dr Robert Ryan	Non-Executive Director since 14 Sep 2016	PhD (Toxicology), MS (Pharmacokinetics), MS (Genetics), BS (Biology)	Independent
Mr John Michailidis	Non-Executive Director since 14 February 2017	BSc (Hons) EMBA (HARV) MAICD	Independent

The Company aims to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity relevant to the business. An optimal board is not dictated by a formula but is driven by the particular, current and medium-term needs of our organisation. Factor continues to strive for a board that has balanced membership encompassing strategic, financial, operational and governance competencies that can guide the company in building shareholder value going forward.

Nomination Committee

The Board has established a Nomination Committee, which is responsible for making recommendations to the Board on board composition, board renewal and succession planning, the appointment and re-appointment of directors, and the Board, the Committees and individual director performance evaluation process.

The Nomination Committee operates under a formal charter approved by the Board, which sets out the Committee's role and responsibilities, composition, structure and membership requirements. A copy of the Charter is available at the Company's website.

The current membership, the independence of the members and composition are set out earlier in this Corporate Governance Statement. The details of the Committee meetings and attendance by each Committee member are set out in the Directors' Report and the Financial Report for the 6-month transitional period to 31 December 2017.

Board skills matrix

The Board considers that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually and the Board collectively to discharge their responsibilities and duties under the law effectively and efficiently. Directors should also understand the Company's business and the environment in which the Company operates so as to be able to work with management to agree the objectives, goals and strategic direction which will maximise shareholder value, and to assess the performance of management in meeting those objectives and goals.

The Board strives to achieve diversity in its composition. The current directors collectively bring to the Board a broad range of experience, expertise, skills, and contacts relevant to Factor Therapeutics and its business.

- Strategic thinking ability
- Financial literacy and acumen
- Commercial business experience and skills including in systems, risk and compliance, manufacturing, and quality.
- Specific industry knowledge / experience in wound care including in the USA and Europe.
- Experience in the drug development industry (incl. biologics)
- Understanding of market drivers, risks, policies and competitors
- Clinical trials experience and relevant clinical networks
- Capital management and raising – relevant networks.
- Experience in BD and corporate transactions
- Understanding of and experience in R&D
- People, performance and remuneration experience
- Governance experience including in the ASX
- FTT Corporate knowledge

Director independence

A director is considered independent if he or she is a non-executive Director and is free of any interest, position, association or relationship that might influence, or reasonably be perceived to be influence, in a material respect their capacity to exercise independent judgment. The Board will assess the Independence of each director on a case-by-case basis, having regard to both quantitative and qualitative principles.

Directors must disclose immediately to the Chair and the Company Secretary all relevant details that will or may affect independence, in writing.

The Board regularly assesses the independence of all Directors against the criteria outlined in Box 2.3 of the third edition of ASX CGCPR.

As at the date of the report, the Board comprises four independent Directors, Dr Cherrell Hirst, Mr Tim Hughes, Dr Robert Ryan and Mr John Michailidis. Given the executive position held by Dr Christian Behrenbruch in the period under review, he is considered not to be independent.

Independence of Chair

Dr Cherrell Hirst is a non-executive Director and considered to be independent. Dr Hirst chairs the Board in such a manner to facilitate the effective contribution of all Board members and management. This includes established meeting procedure, the timely despatch of Board papers, and the timely issue of draft minutes.

The role of the Chair and Chief Executive Officer are exercised by different individuals providing a clear division of responsibility at the head of the Company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

Induction of new directors and professional development

The Board provides an appropriate induction program for new Directors, covering Factor Therapeutics' financial, strategic, operational and risk management position, a new director meets with the Chair, and the other directors, the CEO and other senior executives, to gain an insight into the values and culture of Factor Therapeutics.

Directors have the opportunity for professional development to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Principle 3: Act ethically and responsibly

Code of conduct

The Board recognises the need for good corporate governance practice and ethical conduct by all directors, executives, management and employees of the Company.

The Board has adopted a Code of Conduct, which outlines the standard behaviour expected of all directors, executives, management and employees to promote and maintain the confidence and trust of all those dealings with the Company. A copy of the Code of Conduct can be found at the [Company's website](#).

The Company also has a Securities Trading Policy in place as part of a compliance framework to monitor and encourage adherence with the Code of Conduct. Securities Trading Policy governs the ability of directors, executives and employees to trade in the Company's securities.

Principle 4: Safeguard integrity in corporate reporting

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to which it has delegated the responsibility to safeguard the integrity of financial reporting and internal control system within the Company.

The Audit and Risk Management Committee operates under a formal charter approved by the Board, which sets out the Committee's role and responsibilities, composition, structure and membership requirements. The copy of the Charter is available at the Company's website.

All the members of the Committee are financially literate and have an appropriate understanding of the industry in which the Company operates. The Committee meets at least two times per year and has direct access to the Company's auditors.

The current membership, the independence of the members and composition are set out earlier in this Corporate Governance Statement. The details of the Committee meetings and attendance by each Committee member are set out in the Directors' Report and Financial Report for the 6-month transitional period to 31 December 2017.

CEO and Finance Director declaration

The integrity of the Company's financial reporting depends upon the existence of a sound system of risk oversight and management and internal control. Management accountability for this is enhanced by the assurances it is required to give to the Board.

The CEO and CFO provided assurance to the Board prior to the release of the 31 December 2016 and 30 June 2017 financial statements that, in their opinion:

- The financial records of the Company for the financial year have been properly maintained in accordance with the *Corporations Act 2001*; and
- The financial statements and notes for the relevant financial period comply with the accounting standards and give a true and fair view of the financial position and performance of the Company.

The opinions of the CEO and CFO were formed on the basis of a sound system of risk management and internal control, which is operating effectively.

External Auditor

Appointment and rotation of auditor

The Company's external auditor is PKF Hacketts. The effectiveness, performance and independence of the external auditor is reviewed annually by the Audit and Risk Management Committee. PKF Hacketts has a partner rotation policy that requires the signing and engagement partner to change every five years in accordance with the requirements of the Corporations Act.

Independence declaration

PKF Hacketts has provided the required independence declaration to the Board for the 6-month transitional period to 31 December 2017. The independence declaration forms part of the FY2017 Directors' Report.

Non-audit assurance related services

The Board has considered the nature of the non-audit and assurance related-services provided by the external auditor during the year and has determined that the services provided, and the amount paid for those services, are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of fees paid (or payable) to PKF Hacketts for non-audit assurance related services provided to the Company for the 6-month transitional period to 31 December 2017 are set out in the Directors' Report and Financial Report for the 6-month transitional period to 31 December 2017.

Attendance of external auditor at annual general meetings

The lead audit partners of PKF Hacketts attends the Company's Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Principle 5: Make timely and balanced disclosure

The Company is committed to comply with its continuous disclosure obligation under the ASX Listing Rules to keep the market, investors and shareholders fully informed of all material information concerning the Company, including its financial position, performance, ownership and governance, in order to promote transparency and investor confidence.

Factor's practice of providing relevant and timely information is supported by its Continuous Disclosure Policy which details processes to ensure compliance with the Corporations Act and ASX Listing Rules. Specifically, the policy outlines the procedure for identifying information that is or may be price sensitive information, and for reporting that information to the Chair/ CEO/ Company Secretary for review. Under this policy all price-sensitive material for public announcement will be lodged with ASX and subsequently posted on Factor's website. The Company Secretary is responsible for communications with the ASX.

Principle 6: Respect the rights of security holders

Company website

The Company maintains its website at www.factor-therapeutics.com, which contains up-to-date information on the operations of the Company, management and corporate governance structure, ASX announcements, and other information.

Investor relations

The Company encourages shareholders to contact the Chairman and/or management directly at any time. The contact details are available at www.factor-therapeutics.com. The Board receives regular reports from the Chairman and Senior Management regarding feedback from shareholders, to ensure Directors are aware of concerns being raised giving them an understanding of current market and shareholder views.

Shareholder meetings

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of director accountability to shareholders, by voting on all resolutions, unless specifically stated otherwise in the notice of meeting. Shareholders who cannot attend the annual general meeting may lodge a proxy in accordance with Corporations Act. Proxy form may be lodged with the share registry by mail, hand delivery, facsimile and electronically.

Electronic communications

Factor Therapeutics gives shareholders the option to receive communication from, and send communications to, Factor Therapeutics and its share registry electronically

Principle 7: Recognise and manage risk

Audit and Risk Management Committee

The Board is responsible that management has developed and implemented a sound system of risk management and internal control. The Audit and Risk Management Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. It monitors the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of operational, financial, compliance and strategic risks.

The Committee's Charter is available at the Company's website, which sets out the Committee's role and responsibilities, composition, structure and membership requirements.

The current membership, the independence of the members and composition are set out earlier in this Corporate Governance Statement. The details of the Committee meetings and attendance by each Committee member are set out in the Directors' Report and Financial Report for the 6-month transitional period to 31 December 2017.

Risk management framework

Risk and risk management framework are reviewed and assessed at least annually by the Audit and Risk Management Committee, and more often by the board as required, to identify key risks of the business and manage the mitigation of those risks where possible.

Internal audit function

In light of the size of the Company's operations and activities, the Company has not established a separate internal audit function.

The Company's risk management framework is integrated with its day-to-day business processes and functional responsibilities. Risks are monitored and managed by management reporting to the Audit and Risk Management Committee and the Board directly.

Economic, environmental and social sustainability

The Audit and Risk Management Committee has considered whether the Company has any material exposure to economic, environmental and social sustainability risks and determined that there is no material exposure to these risks in the period under review and at the date of this Statement.

Principle 8: Remunerate fairly and responsibly

Remuneration Committee

The Board has established a Remuneration Committee, which advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for Directors and senior executives.

The Remuneration Committee operates under a formal charter approved by the Board, which sets out the Committee's role and responsibilities, composition, structure and membership requirements. The copy of the Charter is available at the Company's website.

The current membership, the independence of the members and composition are set out earlier in this Corporate Governance Statement. The details of the Committee meetings and attendance by each Committee member are set out in the Directors' Report and Financial Report for the 6-month transitional period to 31 December 2017.

The Company distinguishes the structure of non-executive directors' remuneration from that of executive directors and other key management personnel.

Remuneration Policy

Non-executive Director

Non-executive directors' remuneration is determined by the Board, subject to a maximum annual aggregate amount approved by shareholders at a general meeting. The amount of remuneration is set having regard to the obligations and responsibilities of the Board. The directors do not receive any additional remuneration for their service on Board Committees.

Key Management Personnel

Each of the key management personnel has a written contract with the Company, setting out the terms of his or her appointment. Full details of the remuneration paid to directors and key management personnel, are set out in the Remuneration Report of the Directors' Report for the 6-month transitional period to 31 December 2017.



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 [Securities Trading Policy](#) which is available on the Company's website.