

## CORPORATE GOVERNANCE STATEMENT

Sigma's corporate objective is to maximise returns to shareholders within a framework of acceptable risk management. In pursuing this objective your Board draws on corporate governance to contribute to Sigma's performance.

Your Board is committed to applying the ASX Corporate Governance Council's Best Practice Recommendations and as at this date considers that Sigma has adopted those recommendations in all material respects. In this Statement, the relevant governance items are linked to each of the ASX Best Practice Recommendations (2<sup>nd</sup> edition).

This Statement outlines Sigma's system of governance. Further details can be found on the Corporate Governance section of Sigma's website ([www.sigmaco.com.au](http://www.sigmaco.com.au)).

### Board Responsibilities and Objectives

Sigma's Board is primarily responsible for setting the strategic direction and corporate governance of Sigma Pharmaceuticals Limited and its subsidiaries including:

- overseeing the management of Sigma
- reviewing and approving management's business plans and strategic opportunities
- succession planning
- appointment and annual evaluation of the CEO & Managing Director
- establishing strategic goals for management
- identifying the principal risks and overseeing appropriate control and management systems for them
- monitoring Sigma's performance with the aim of maximising long term returns to Sigma shareholders at an acceptable level of risk

Matters reserved to the Board include:

- overseeing Sigma's corporate strategy and monitoring management's implementation of that strategy;
- appointing and removing, determining remuneration of, evaluating performance of and planning for the succession of the CEO & Managing Director
- overseeing remuneration policies and senior executive performance
- overseeing Sigma's control and accountability systems - particularly in relation to the integrity of financial and other reporting
- approving Sigma's annual financial plans and budgets, monitoring financial performance and approving the annual and half year financial statements and reports
- acquisition and disposal of legal entities and significant capital assets
- approval of significant borrowings and commitments
- matters relating to Sigma's securities including declaration of dividends
- reviewing and ratifying policies and systems of risk management, codes of conduct, legal compliance and corporate governance

- setting Sigma's values and standards of conduct and ensuring that these are adhered to in the interests of its shareholders, employees, customers and the community.

Subject to matters reserved to the Board, the management and administration of the business is delegated to the Managing Director as its Chief Executive Officer. Whilst there is ongoing interaction between the Board and Management, your Board functions independently of Management.

Your Board draws on corporate governance best practice to contribute to Sigma's performance.

Further details of Board responsibilities, objectives and structure are set out in the Board Charter on Sigma's website.

#### *ASX Best Practice Recommendation 1.1*

### **Board Composition**

Your Board currently consists of one Executive and six Non-Executive Directors, including the Chairman.

The tenure of each Director (with the exception of the CEO & Managing Director) is subject to election by shareholders at annual general meeting on a rolling 3 year basis.

On an annual basis your Board reviews the performance of individual Directors and the Board and also reviews both the number and skills of Directors. Sigma sees benefits in having a Board with a diversity of backgrounds, experience and skills. On a regular basis your Board also arranges for a formal, independent performance review of individual Directors and the Board as a whole to ensure it is operating effectively.

Further details regarding the Directors' skills and qualifications and participation in Board and committee meetings is set out in Sigma's annual Directors' Report and Remuneration Report.

#### *ASX Best Practice Recommendation 2.6*

### **Independence of Directors**

The majority of the Board, including the Chairman, are independent Directors. Sigma has adopted a definition of "independence" for Directors that is consistent with that suggested by the ASX Corporate Governance Council. Applying this definition, Mr Scott and Mr Manuel (as practising pharmacists) are not independent. The Board values the insight and advice provided by Mr Scott and Mr Manuel.

All other Non-Executive Directors are considered by the Board to be independent, meaning that each one is generally free from any management role, or business interest or other relationship that could materially interfere with the Director's ability to act in the best interests of the Sigma group as a whole.

Only those transactions permitted by Sigma's Constitution and the Corporations Act take place with Directors or their related parties. These are on the same commercial terms and conditions applying to any other external party, supplier or customer. Directors are required to disclose in writing any related party transactions. Related party transactions are set out in the notes to the Company's financial report.

Directors are also required to identify any conflict of interest they may have in dealing with Sigma's affairs and subsequently to refrain from participating in any discussion or voting on those matters. If a potential conflict of interest is likely to arise, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while those matters are considered. Accordingly the Director concerned takes no part in discussion nor exercises any influence over other members of the Board if a potential conflict of interest exists.

On a regular basis Non-Executive Directors meet without the CEO & Managing Director or other members of management being present, to ensure that the Non-Executive Directors maintain independence of thought and judgement.

The Non-Executive Directors also meet independently with the external auditors at least twice per year.

Directors have a right of access to all Company information and executives. Directors are entitled, in fulfilling their duties and responsibilities, to obtain independent professional advice on any matter connected with the discharge of their responsibilities, with prior notice to the Chairman, at Sigma's expense.

*ASX Best Practice Recommendations 2.1, 2.2, 2.3, 2.6*

### **Board Committees**

The Board has established the following committees to assist it in carrying out its duties and to allow detailed consideration of issues:

- Risk Management and Audit Committee
- Remuneration & Nomination Committee

Each committee is comprised of Non-Executive Directors, and the CEO & Managing Director and relevant senior executives attend by invitation. The committee structure, membership and effectiveness continue to be reviewed on a regular basis.

Each committee has its own written charter setting out its role and responsibilities and the manner in which it is to operate. Further details of those charters are contained on Sigma's website.

Matters determined by committees are submitted to the full Board as recommendations for decision.

The Board and Committees met regularly throughout the year and the frequency of Board and Committee meetings and Committee members' attendance at those meetings is set out in the Directors' Report. These meetings include both scheduled meetings of the Board and Board Committees and meetings organised as required to deal with any specific or urgent matters requiring their attention or action. All Committee meetings are open to all Board members to attend.

*ASX Best Practice Recommendations 2.6, 4.1, 4.4, 8.1*

### **Risk Management and Audit Committee**

The Risk Management and Audit Committee comprises Mrs L Nicholls (Chairman), Mr B Jamieson, and Mr D Curlewis, who are all independent Non-Executive Directors.

The Committee's main responsibility is to review Sigma's financial reporting process, management of risks, audit processes, corporate governance processes and

compliance processes. In particular, it is responsible for making recommendations to the Board with respect to all financial information released by Sigma.

The Committee recommends the appointment, removal and remuneration of the external auditors, together with the terms of engagement. It also reviews the activities and organisational structure of the internal audit function and reviews the appointment or replacement of the internal auditor.

The Committee receives regular reports from management and from the internal and external auditors. It also meets with the internal and external auditors without the CEO & Managing Director or other members of management being present at least twice a year. The internal and external auditors are free at any time to communicate directly with either the Chairman of the Committee or the Board.

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

Prior approval of the Committee must be gained for non-audit work to be performed by the external auditor. There are specified qualitative limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the audit partner responsible for the audit not perform in that role for greater than 5 years.

*ASX Best Practice Recommendations 4.2, 4.3, 4.4*

## **Remuneration & Nomination Committee**

The Remuneration & Nomination Committee comprises Mr B Jamieson (Chairman), Mr D Bayes and Mr B Scott, who are all Non-Executive Directors.

The Committee's main responsibilities are to advise the Board on remuneration policies and practices, assess the necessary and desirable competencies of Board members, evaluate Board performance, review Board and management succession plans and to make specific recommendations on remuneration packages for the CEO & Managing Director, Non-Executive Directors and senior management based on an annual review.

The Remuneration and Nomination Committee is primarily responsible for providing recommendations to the Board in regards to the remuneration strategy, policies and practices applicable to Non-Executive Directors, the CEO & Managing Director, and Senior Executives. It is the Committee's responsibility to ensure that these recommendations are:

- fair and reasonable
- demonstrate a clear relationship between individual performance and total reward
- designed to attract and retain high calibre talent to deliver superior performance
- motivate employees to pursue the long term growth and success of the Company
- aligned with current governance and legal requirements

Remuneration packages are set at levels that are intended to attract and retain quality Directors and executives with the skills necessary to successfully manage the group's operations and achieve Sigma's strategic objectives.

Non-executive Directors are paid a fixed fee, which is not dependent on Sigma performance. In addition to their base fees, members of Board Committees are paid an annual committee fee.

Independent external advice is sought by the Remuneration & Nomination Committee on the total remuneration (including committee fees) to be paid to Non-Executive Directors and a recommendation is made to the Board. Aggregate fees payable to Non-Executive Directors are submitted for approval by shareholders at Sigma's annual general meeting.

Further details of the responsibilities and activities of the Remuneration Committee, remuneration policies and structures, details of remuneration and retirement benefits paid to Directors are set out in Sigma's Remuneration Report.

*ASX Best Practice Recommendations 2.4, 2.5, 8.2*

### **Executive Performance and Remuneration**

Sigma's Remuneration Policy was designed to recognise the competitive environment that Sigma operates within as well as emphasise the requirement to attract and retain high calibre talent in order to achieve sustained improvement in Sigma's performance. The overriding objective of the Remuneration Policy is to ensure that an individual's remuneration package accurately reflects their experience, level of responsibility, individual performance and the performance of Sigma. The key principles are:

- link executive reward with the strategic goals and sustainable performance of the Company
- apply challenging corporate and individual key performance indicators that focus on both short term and long term outcomes
- motivate and recognise superior performers with fair, consistent and competitive rewards
- remunerate fairly and competitively in order to attract and retain top talent
- recognise capabilities and promote opportunities for career and professional development
- through employee ownership of Sigma shares, foster a partnership between employees and other shareholders

Pursuant to the policy, evaluation of senior executive performance and remuneration is undertaken by the CEO & Managing Director on an annual basis. Evaluation of the CEO & Managing Director's performance and remuneration is undertaken by the Remuneration & Nomination Committee and Board on an annual basis.

Sigma's executive remuneration policies and structures and details of remuneration paid to senior managers are set out in the Remuneration Report.

*ASX Best Practice Recommendations 1.2, 2.4, 2.5, 8*

### **Risk Assessment and Management**

The Board is committed to the identification, assessment and management of risk throughout Sigma's business activities.

The Company has established policies for the oversight and management of material business risks. The Company's overarching Risk Management Policy is posted on the Corporate Governance page of Sigma's website.

The Board's committee structure forms an important part of the risk management process. Through the Risk Management and Audit Committee, the Board has required management to design and implement a risk management and internal control system to manage Sigma's material business risks. It receives regular reports on specific business areas where there may exist significant business risk or exposure.

Sigma recognises that risk management is an intrinsic part of each manager's day to day activity. Each business division is individually responsible and financially accountable for ensuring that there are appropriate systems and structures in place for the protection of its people and assets, in accordance with Sigma's risk policies and systems.

Management reports to the Board through the Risk Management and Audit Committee as to the effectiveness of Sigma's management of its material business risks on a quarterly and annual basis.

The Board also has received assurance from the CEO & Managing Director and the CFO that their declaration provided in accordance with S295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

An analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems is carried out with the assistance of an external firm, independent of Management and the external auditor. The firm has direct access to the Risk Management & Audit Committee and meets with them in the absence of Management on at least a semi-annual basis. They have all necessary access to Management and the right to seek information or explanations.

#### *ASX Best Practice Recommendation 7*

### **Health and Safety Management**

Sigma is committed to the highest standards of occupational health and safety (OHS) in all its operations. Sigma:

- monitors its compliance with relevant legislation
- encourages employees to actively participate in the management of OHS issues
- undertakes annual systems and performance reviews as part of its continuous improvement program

The Board receives regular management reports that cover compliance and performance matters in respect of health and safety matters.

### **Ethical Standards**

Sigma has adopted a Code of Conduct that applies to all Directors and employees. It's key principles are:

- honest and ethical behaviour
- respect for people and property
- legal compliance

In summary Directors and employees must:

- minimise conflicts of interest and disclose possible or potential conflicts
- avoid receipts of material gifts or benefits from third parties in connection with Sigma's business
- report any knowledge of fraud, material error, breach of law, or of a concealed practice against the interest of Sigma
- not use any Sigma asset on an unauthorised basis for personal use or gain (including goods, money, equipment, corporate cards, intellectual property or the services of other areas of the organisation)
- treat all stakeholders (Sigma team members, shareholders, customers, suppliers, the public and others on Sigma's behalf) courteously, fairly and without harassment or unlawful discrimination in any form
- comply with all federal, state and local laws and regulations

Sigma has a Whistleblowing Policy in place designed to enable Sigma employees to raise concerns internally and at a high level and to disclose information that the individual believes in good faith shows serious malpractice or wrongdoing within Sigma without fear of reprisal. No members of staff will be disadvantaged in raising legitimate concerns. Further details of Sigma's Code of Conduct and Whistleblowing Policy are set out on Sigma's website.

In addition Sigma has in place and enforces a number of key policies governing the standards of ethical behaviour, compliance with legal obligations and due regard to the reasonable expectations of shareholders required of all Sigma personnel including: Occupational Health & Safety, Equal Employment Opportunities, Harassment, Good Working Relationship and Privacy policies.

*ASX Best Practice Recommendations 3.1, 3.3*

### **Share Trading**

Sigma's share trading policy prohibits Directors or employees from trading in Sigma's shares if they are in possession of non-public price sensitive information. It also prohibits short-term trading and arrangements to manage the risk of price changes of any shares held under any Sigma share plan during their non disposal period.

Trading is not permitted in the period between end of full and half year and the release of full or half-year results respectively or in the week prior to the annual general meeting. In addition, Directors must obtain prior approval for any trading from the Chairman and senior staff must seek prior approval from the CEO & Managing Director or the Company Secretary.

Regular reminders of Sigma's share trading policy are issued to senior management. Further details of Sigma's share trading policy are set out on Sigma's website.

*ASX Best Practice Recommendations 3.2, 3.3*

### **Communication and Continuous Disclosure**

Sigma is committed to ensuring that all shareholders, the market and other stakeholders are provided with and have access to full and timely information about its activities. Sigma has policies and procedures in place to satisfy this commitment and its continuous disclosure obligations.

Regular briefings and presentations are given in all Australian states and selected overseas locations. Any new information that is presented will have been disclosed to the ASX and posted on Sigma's website, together with all ASX releases. Sigma's external auditor attends the annual general meeting to answer questions regarding the audit.

Further details of Sigma's communications and continuous disclosure policy and procedure are set out on Sigma's website.

*ASX Best Practice Recommendations 5.1, 5.2, 6.1, 6.2*

### **Interests of Stakeholders**

Sigma promotes the highest ethical and professional standards. As a company with a reputation for fair and responsible dealing with stakeholders (including shareholders, customers, employees and government regulatory authorities) the Board demands that the highest standard of ethical behaviour be maintained and fostered throughout the organisation.

Sigma accepts the need for a legal regulatory framework of business and for a fair taxation regime. Sigma will therefore at all times seek to comply with the spirit as well as the letter of all applicable laws and regulations (both domestic and foreign) and where appropriate evaluate actions in a broader social context.

Sigma also retains the right to manage its affairs in an efficient, well ordered and systematic manner, giving due consideration to tax and its goal of maximisation of returns to its shareholders.

Sigma requires a culture and system of compliance and accountability to be maintained throughout the organisation and for all employees to take pride in this underlying ethical basis of the organisation, acting legally and responsibly in all matters.

Directors and employees must comply with the codes of conduct which have been adopted by Sigma. These have been set out in earlier sections.

*ASX Best Practice Recommendations 3, 7*