



## CORPORATE GOVERNANCE

The directors of Progen Industries Limited support the core principles developed by the ASX corporate governance council and published on 31 March 2003, as a basis for enhancing the credibility and transparency of our capital.

Indeed the structures, policies and procedures already in place at Progen Industries Limited have been developed and implemented by the Board and management over many years to ensure that the Company's operations are founded on those same principles.

This statement outlines the ten core principles adopted by the Council and the extent to which the Company has followed the best practice recommendations throughout the financial year. Unless otherwise stated the guidelines followed have been followed for the entire reporting period. In this statement the Council's document published on 31 March 2003 is referred to as "the guidelines".

### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recognise and publish the respective roles of board and management.

**Recommendation 1.1:** Formalise and disclose the functions reserved to the board and those delegated to management.

The Board has developed and implemented policies and practices for many years, which ensure that the Company complies with the recommendations and principles set out in Recommendation 1.1 of the guidelines, while recognising that in a dynamic company with a small board the relationship among Directors, and particularly the relationship between the Chairman and Managing Director (M.D.) cannot be fully regulated and documented. The division of responsibilities are regularly reviewed.

### PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

**Recommendation 2.1:** A majority of the board should be independent directors.

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this annual report is included on page 34-35. Directors of the Company are considered independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In accordance with this definition of independence the following Directors of Progen Industries Limited are considered to be independent: Mr Patrick Burns, Non-Executive Director; Prof John Zalcborg, Non-Executive Director; and Mr Mal Eutick, Non-Executive Director. Therefore, with 3 of 6 Directors considered independent the Company does not have a majority of independent directors. Given the size of the Company the Board considers the current board structure to be adequate.

The names and details of the Directors in office at the date of this Statement, and the period of office of each director, are set out in the Directors' Report and in the Annual Report.

Each Director has the right, at the Company's expense, to seek independent professional advice in relation to the execution of Board responsibilities. Prior approval of the Chairman, which will not be unreasonably withheld, is required. Where appropriate, directors share such advice with the other directors.

The Board distinguishes between the concept of independence, and the issues of conflict of interest or material personal interests which may arise from time to time. Wherever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

- i the interest is fully disclosed and the disclosure is recorded in the register of Directors' interests and in the Board minutes.
- ii the relevant Director is excluded from all considerations of the matter by the Board.
- iii the relevant Director does not receive any segment of the Board papers or other documents in which there is any reference to the matter.

**Recommendation 2.2:** The chairperson should be an independent director.

The position of Chairperson is currently filled in an executive capacity. The Company therefore does not comply with this recommendation. The Directors currently consider the composition of the board to be adequate. The Company continues to review the role of Chairperson.

**Recommendation 2.3:** The roles of chairperson and chief executive officer should not be exercised by the same person.

The Company complies with this recommendation.

**Recommendation 2.4:** The board should establish a nomination committee.

As Progen Industries Limited has a relatively small board, the full board acts as a nomination committee and regularly reviews board membership.

### PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Actively promotes ethical and responsible decision-making.

**Recommendation 3.1:** Establish a Code of Conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

**3.1.1:** The practices necessary to maintain confidence in the company's integrity.

**3.1.2:** The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Through established practices and policies the Board supports the need for Directors and employees to observe the highest standards of behaviour and business ethics. All Directors, managers and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Group. The Company Employee Manual is a dynamic document that outlines policies, which reflect the suggestions in Box 3.1 of the guidelines.

Appropriate training programs on the Group's internal policies including workplace health and safety, environmental law compliance, trade practices legislation and affirmative action programs support this process.

**Recommendation 3.2:** Disclose the policy concerning trading in company securities by directors, officers and employees.

The Board has finalized a policy statement covering insider trading by Directors and relevant employees that restricts dealings in the Company's shares.

The Insider Trading Policy complies with the suggestions in Box 3.2 of the guidelines.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

**Recommendation 4.1:** Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent)

to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

This has been the established policy and practice of the Board for a number of years. The statements from the M.D. (the CEO equivalent) and Chief Financial Officer are based on a formal sign-off framework established throughout the Company and reviewed by the Audit Committee as part of the six-monthly financial reporting process.

**Recommendation 4.2:** The board should establish an Audit Committee.

The Company has an established Audit Committee.

**Recommendation 4.3:** Structure the Audit Committee so that it consists of:

- Only non-executive directors.
- A majority of independent directors.
- An independent Chairperson, who is not chairperson of the board.
- At least three members.

The structure of the Committee complies with this recommendation except for the number of members. The current Committee consists of two independent directors and the Company is aware of the need to expand this to three. With the current composition of the Board there are limitations and this is being addressed.

Meetings of the Committee are attended, by invitation, by the M.D. and CFO/Company Secretary, the engagement partner from the Company's external auditor and such other senior staff or professional people as may be appropriate from time to time.

**Recommendation 4.4:** The Audit Committee should have a formal charter.

The Audit Committee does not have a formal charter. It does however operate with the approval of the Board and the functions and responsibilities of the Committee comply with the guidelines approved by the Board. The Board is currently working on a formal charter.

The external auditor, Ernst & Young, has declared its independence to the Board. The Committee has examined detailed material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues are fully complied with.

Minutes of all Committee meetings are provided to the Board and the Chairman of the Committee also reports to the Board after each Committee meeting. The form of the Committee's minutes and reports comply with recommendation 4.4.

The Company complies with the reporting guidelines on Principle 4 in its annual report.

#### PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Promote timely and balanced disclosure of all material matters concerning the company.

**Recommendation 5.1:** Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company has established policies and procedures which comply with the recommendation. These were established, and have been regularly reviewed, to ensure that the Company complies not only with its obligations at law and under the ASX Listing Rules, but with the best practice as it has evolved in recent years.

The Company Secretary is responsible for communications with the Australian Stock Exchange and NASDAQ including responsibility for ensuring compliance with the continuous disclosure requirements in both the ASX and NASDAQ Listing Rules and overseeing information going to the ASX, NASDAQ, shareholders and other interested parties. The matter of continuous disclosure is a permanent item on the agenda for all Board meetings and is specifically addressed by each Director at those meetings.

The Directors have obligations to inform the Company of any securities trading in the Company.

All announcements made to the ASX and NASDAQ by the Company are published on the Company's website.

#### PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Respect the rights of shareholders and facilitate the effective exercise of those rights.

**Recommendation 6.1:** Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Whilst the Company does not have a formal communications strategy, it keeps shareholders informed of the Company's performance and all major developments in an ongoing manner as part of the public company disclosure requirements imposed by the ASX and SEC. Information is communicated to shareholders through:

- i the Annual Report which is distributed to all shareholders;
- ii the Financial half-year shareholders' report is made available to all shareholders via public announcements;
- iii other correspondence regarding matters impacting on shareholders as required;
- iv relevant ASX, SEC, public Press Announcements and corporate presentations are all posted for public viewing on the Company's website following regulatory approval; and
- v newsletters are posted or emailed to shareholders from time to time.

Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to shareholders as single resolutions.

**Recommendation 6.2:** Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit.

The senior engagement partner of the Company's external auditor, Ernst & Young, attends the Company's Annual General Meetings and is available to answer questions from shareholders in relation to the audit. The Chairman advises the shareholders of this at the commencement of each Annual General Meeting.

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

Establish a sound system of risk oversight and management and internal control.

**Recommendation 7.1:** The board or appropriate board committee should establish policies on risk oversight and management.

The Company places a high priority on risk management and identification throughout the Group's operations and regularly reviews its adequacy. Under the guidance of the Audit Committee and with the assistance of external advisors a comprehensive risk control framework has been developed which includes legislative compliance, property protection and health, safety and environment audits using risk assessors, self audits, engineering and professional advisers. The Company's management regularly reviews this framework.

In view of the size and considering cost effectiveness, the Company relies on its financial management team, led by the CFO to perform internal audit functions.

The CFO attends all Board meetings, Audit Committee meetings (upon request) and reports on risk management at both meetings.

**Recommendation 7.2:** The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:

**7.2.1:** The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

**7.2.2:** The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

This has been the Company's practice for many years. Refer to recommendation 4.1.

**PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE**

Fairly review and actively encourage enhanced board and management effectiveness.

**Recommendation 8.1:** Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

A performance evaluation of the Board was not undertaken during the reporting period. The Board plans to implement such an evaluation in subsequent reporting periods. The Company does have a formal performance review process in place for senior executives and all permanent staff.

**PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY**

**Recommendation 9.1:** Provide disclosure in relation to the company's remuneration policies to enable investors to understand:

- i the costs and benefits of those policies and
- ii the link between remuneration paid to directors and key executives and corporate performance.

The Remuneration Committee of the Board of Directors is responsible for recommending and reviewing compensation arrangements for the directors, M.D. and the executive team. The remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by the reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Officers, other than the non-executive Directors, are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicle plans. It is intended that the manner of payment chosen will be optimal for the recipient without increasing the total cost for the Company.

To assist in achieving these objectives, the Company's remuneration policy links the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance.

**Recommendation 9.2:** The board should establish a Remuneration Committee.

The Board has an established Remuneration Committee, comprising two non-executive independent directors. The recommendation is for a minimum of three members, however given the current size of the Company's board two is currently considered adequate. In all other respects the Committee's composition and responsibilities comply with this recommendation.

**Recommendation 9.3:** Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The structure of non-executive Directors' remuneration and that of executives is set out in the relevant section of the Directors' Report.

Details of the nature and amount of each element of the emolument of each director of the Company and each of the five executive officers of the Company receiving the highest emolument for the financial year are disclosed in the relevant section of the Directors' Report.

The Company has issued stock options to all Directors in the past and will continue to consider doing so. The Board believes that stock options assist in attracting quality directors, particularly in a technology-focussed company where conservation of cash resources is critical.

Non-executive Directors are not provided with retirement benefits other than statutory superannuation.

The terms "director" and "officer" have been treated as mutually exclusive for the purposes of this disclosure. Executives are those who are directly accountable and responsible for the operational management and strategic direction of the Company.

## PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

**Recommendation 10.1:** Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company has well-established policies, procedures and codes of conduct, which seek to promote throughout the Company, a culture of compliance with legal requirements and ethical standards. These principles are reflected in the Company's Employee Manual which is a dynamic document. The Board recognises that managing "natural, human, social and other forms of capital" as suggested in the guidelines may also assist in creating value for shareholders.

The Company will provide a summary of its main policies and codes of conduct available on its website in the near future.