

corporate governance statement

Alchemia Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and procedures. At a minimum we will ensure that all regulatory requirements are met and ethical standards maintained. Alchemia Limited adheres to the substantive and procedural recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) (Principles) as revised in August 2007.

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices of the Company that the Directors, management and employees are required to follow.

Comprehensive information about our corporate governance policies can be found on our website at www.alchemia.com.au

Role of the Alchemia Limited Board of Directors

The Alchemia Limited Board of Directors (the Board) is ultimately responsible for the success of the Company through setting its strategic goals, establishing resources and overseeing its management processes. Its aim is to create and deliver shareholder value by maximising the performance of our business.

The primary roles of the Board include:

- Appoint the Chief Executive Officer and monitor performance of the Chief Executive Officer and senior Executives
- Formulate and establish the strategic direction of the Company and monitor its execution
- Protect the interests of shareholders
- Monitor and optimise business performance
- Ensure that the Company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities
- Establish proper succession plans for management of the Company
- Approve external financial reporting by Alchemia Limited.

The division of responsibilities between the Board and management is set out in the Board Charter and in accordance with the approved framework of delegated authority to management. The executive team is responsible for ensuring that the Board is provided with quality, timely information to enable the Board to fulfil its responsibilities. A copy of the Board Charter is available on our website.

This complies with Principle 1.

Board composition and independence

The Alchemia Limited Board has five Directors, comprising four Non-Executive Directors (including the Chairman) and one Executive Director.

Details of each Director's skills and experience are set out in the Directors Report.

Directors (except for the Chief Executive Officer) are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the Company's constitution. There are no maximum terms for Non-Executive Director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.

The Board assesses Director independence on an annual basis, or more often if it feels it is warranted, depending on disclosures made by individual Directors.

The Board has concluded that all Non-Executive Directors are independent. In reaching this conclusion the Directors considered the following:

- Dr Tracie Ramsdale was a founder of the Company and has been a Board member since 2003. She was Chief Executive Officer of the Company until April 2007 at which time she resigned from that role to assume a non-executive directorship position with the Company. In addition to this role she will also provide consulting services to, and Chair, Alchemia's Scientific Advisory Board. Notwithstanding these past and present associations the Board is satisfied that these do not affect her ability nor her willingness to operate independently as a director; and are satisfied, through her demonstrated history of participation in robust and energetic board debate, that these have not and will not interfere with the independent exercise of her judgement.
- Carlo Montagner provides consulting advice to the Company from time-to-time with respect to the Company's Oncology business. This role has arisen as a consequence of his appointment to the Board in 2008 and the Board has reviewed and is satisfied that it does not compromise his independence.
- Nerolie Withnall and Melvyn Bridges (Chairman) do not have any previous association with the Company or any other relationships that are relevant to their independence.

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The Chairman is independent and runs the Board in such a manner as to facilitate the effective contribution of all Directors and promote constructive and respectful relations among the Board members and between Board and management. To ensure that the principles inherent in good Board practice are adhered to, the Chairman implements the following:

- Proper meeting procedure ensuring that all members of the Board are given a proper opportunity to put forward views and discuss issues in a constructive and robust environment. This ensures that effective communication and contribution can be achieved.
- The requirement that detailed Board papers be prepared and distributed, ensuring that Board members are fully informed on relevant issues in a timely manner.
- The requirement that draft minutes of meetings be circulated within a reasonable period after each meeting. This ensures proper follow up and informed reporting of resolutions passed and issues discussed at Board meetings.
- If a potential conflict of interest arises, the Director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is being considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of Alchemia.

The roles of Chairman and Chief Executive Officer are exercised by different individuals, providing for 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.

The Company's Board structure is compliant with Principles 2.1, 2.2, 2.3 and 2.4.

Directors' access to independent professional advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Review of board performance

In July 2008 the Board undertook its most recent review of its performance and that of its committees and individual Directors. This involved a self assessment process which required the completion and evaluation of detailed questionnaires on business and management matters. The results of this assessment have been reviewed by the Board and have been used to establish new performance

objectives. This years' Board performance review is currently being conducted.

Formal performance assessment is undertaken on all Executives including the Chief Executive on an annual basis.

Access to information

To help Directors maintain their understanding of the business and to assess business performance, Directors are briefed regularly by members of the Executive team. Directors also have access to other employees at all levels during inspections and in other meetings.

Directors receive comprehensive monthly reports from management and have unrestricted access to company records and information.

All Directors have direct access to the Company Secretary who is accountable to the Chief Executive and, (through the Chairman), the Board on all corporate governance matters.

Board committees

Alchemia's Board has established three standing committees to assist in meeting its responsibilities — the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee. These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board. Copies of the charters of these committees can be accessed from our website.

Remuneration Committee

The Board has established a Remuneration Committee, which meets at least two times per year. The Remuneration Committee comprises the following Non-Executive Directors:

- Carlo Montagner (Chairman)
- Mel Bridges
- Tracie Ramsdale

Attendance at meetings during the year is set out in the Directors' Report.

The Remuneration Committee undertakes the procedure for establishing and reviewing remuneration for senior Executives and Non-Executive members of the Board.

Particulars concerning Directors' and Executives' remuneration and the Company's Employee and Officers Share Option Plan are set out in the Directors' Report and in the notes to the financial statements.

The Remuneration Committee complies with Principles 8.1 and 8.2.

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Audit and Risk Committee

The Board has established an Audit and Risk Committee, which meets regularly throughout the year. The Audit and Risk Committee comprises three Non-Executive Directors, and its current members are:

- Nerolie Withnall (Chairman)
- Mel Bridges
- Carlo Montagner

Attendance at meetings during the year is set out in the Directors' Report.

The members of the Audit and Risk Committee have significant financial, business, and legal backgrounds, expertise and qualifications. The full particulars of each member's relevant experience and qualifications, and other relevant matters are contained in this annual report.

The appointment and review of existing audit arrangements is undertaken by the Audit and Risk Committee. The Audit and Risk Committee addresses issues surrounding the integrity of financial information presented to the Board and shareholders, including the review of audit engagements and controls.

The Audit and Risk Committee also advises the Board and makes recommendations in relation to policy and procedures, and the application of the principles of corporate governance. The committee addresses issues of proper corporate governance procedures and practices to ensure that the Company maintains the highest integrity and best practice with respect to such matters.

The committee seeks to ensure the independence of the external auditor. It pre-approves any non-audit services to be performed by the audit firm. Such approval will not be given if the services might impair the auditor's judgement or independence.

The Audit and Risk Committee generally invites the Chief Executive Officer, the Chief Financial Officer and external auditors to attend meetings. The Chief Executive Officer (Peter Smith) and the Chief Financial Officer (David Green) sign a statement to the half yearly and full year accounts to the effect 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 the relevant accounting standards.

The Audit and Risk Committee structure and charter comply with Principles 4.2 and 4.3.

Nomination Committee

The Nomination Committee comprises all members of the Board and meets where necessary to consider and select candidates for the position of director.

The Nomination Committee structure and functions comply with Principles 2.4.

Risk management

The Board, together with the Audit and Risk Committee, is responsible for satisfying itself that the Company's risk management systems are effective and, in particular, for ensuring that:

- The principal strategic, operational and financial risks are identified
- Effective systems are in place to monitor and manage risks
- Reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate

In addition to maintaining appropriate insurance and other risk management measures, the Board has taken the following steps to address identified risks:

- Established policies and procedures in relation to treasury operations including the use of derivatives
- Issued and revised standards and procedures in relation to health and safety matters
- Implemented policies and procedures in relation to the protection of the Company's intellectual property
- Issued procedures requiring that significant capital and revenue expenditure is approved at an appropriate level of management or by the Board.

These risks are monitored by regular reports to the Board and, where appropriate, by management presentations to the Board and to the Audit Committee during the year.

The Board acknowledges the Revised Supplementary Guidance to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. This function is performed by the Audit Committee and its findings are reported to, reviewed and discussed by the Board.

The Audit Committee oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated

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to management through the Chief Executive, including responsibility for the day to day design and implementation of the Company's risk management and internal control system.

Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

Management is required by the Board to carry out risk assessments of all specific management activities including strategic risk, operational risk, reporting risk, compliance and regulatory risk and funding risk. It is then required to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of these efforts by benchmarking performance in accordance with Australian / New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO) risk framework.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

For the purposes of assisting investors to understand better the nature of the risks faced by Alchemia Limited, the Board has prepared a list of operational risks as part of these Principle 7 disclosures. However the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events:

- Fluctuations in interest rates, exchange rates and demand volumes.
- Molecule or clinical trial failure.
- Changes in technology which make Alchemia's programs uncommercial or redundant.
- Force majeure events by significant suppliers such as Dr Reddy's.
- Increasing costs of operations, including labour costs.
- Changed operating, market or regulatory environments as a result of governmental changes to the healthcare system, particularly reimbursements.

The risk oversight policies and practices comply with Principles 7.1 and 7.2.

Code of conduct

The Board and management ensure that the business processes of Alchemia Limited are conducted according to sound ethical principles. The Board has established formal codes of conduct in this regard for Directors, management and staff, copies of which are available on our website.

This code of conduct complies with the obligations in ASX Corporate Governance Council Principles 3.1.

Share trading

The Board has set the following rules relating to trading in the Company's securities by Directors, management and relevant employees:

1. Directors, Officers and employees will not engage in short term trading of the Company's shares.
2. Directors, Officers and employees will neither buy nor sell at a time when they possess information which, if disclosed publicly, would be likely to materially affect the market price or value of the Company's shares.
3. Directors, Officers and employees will notify the Board in advance of any material intended transactions involving the Company's shares (through the Chairman or Secretary).
4. Subject to points 1 to 3 above, Directors, Officers and employees can only buy or sell shares in the Company during a four week period starting immediately after the occurrence of one of the following events:
 - a) Release of yearly results to the ASX; or
 - b) Release of half yearly results to the ASX; or
 - c) The Annual General Meeting.
5. Points 1 to 4 above apply to Directors, Officers and employees (including their nominee companies) and their associates, such as spouses, dependent children, family trusts and family companies where the transactions are known to the Director.

The share trading policy complies with ASX Corporate Governance Council Principle 3.2.

Reporting to stakeholders

The Board is committed to keeping shareholders and other legitimate stakeholders informed in a timely manner of material developments that affect the Company. The Company disclosure policy is supported by a formal policy and comprehensive procedures on continuous and periodic disclosure to ensure compliance with ASX and Corporations Act obligations.

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All Company announcements, presentations to analysts and other significant briefings are posted on the Company's website after release to ASX. The Company Secretary is responsible for communications with ASX.

The Company's policies and procedures comply with Principles 5 and 6.1.

Certifying financial reports

The Chief Executive Officer and Chief Financial Officer certify in respect of the half yearly financial results and the full yearly financial results that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and results and are in accordance with relevant accounting standards. As part of this certification, they are required to confirm that there is a sound system of risk management and that the risk management and internal compliance and control system is operating efficiently and effectively during the whole financial year.

This complies with Principles 7.2 and 7.3.

Audit governance

The Company's external audit services are provided by Ernst & Young. The Partner responsible for the audit was appointed during 2005 and, under the terms of the engagement, the Partner will be required to rotate off the audit in five years from appointment (that is, 2010). Reports prepared by the external auditor are submitted to the Audit and Risk Committee. It is the policy of the external auditor to provide an annual declaration of their independence to the Audit and Risk Committee.

The relationship with the external auditor is covered in the Audit and Risk Committee charter, which is available on our website.

The external audit partner in charge of the Alchemia audit attends the annual general meeting of the Company and is available to answer shareholder questions relating to audit and accounting matters.