
CORPORATE GOVERNANCE

Neuren's board of directors ("Board") aims to ensure that the Company and its subsidiaries (the "Group") operates with a corporate governance framework and practices that promote an appropriate governance culture throughout the organisation and that are relevant, practical and cost-effective for the current size and stage of development of the business.

A description of the framework and practices is set out below, laid out under the structure of the ASX Listing Rules and the Corporate Governance Principles (the "Principles") and Recommendations (the "Recommendations") 3rd Edition issued by the ASX Corporate Governance Council in March 2014.

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is responsible for the overall corporate governance of the Group. The Board acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations. The Board is responsible for identifying areas of significant business risk and ensuring mechanisms are in place to manage those risks adequately. In addition, the Board sets the overall strategic goals and objectives, and monitors achievement of goals.

The Board appoints the principal executive officer, currently the Executive Chairman. The Board has delegated the responsibility for the operation and administration of the Group to the Executive Chairman and senior management. The Board ensures that the management team is appropriately qualified to discharge its responsibilities.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:

- establishment of the overall strategic direction and leadership of the Group;
- approving and monitoring the implementation by management of the Group's strategic plan to achieve those objectives;
- reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;
- monitoring and review of the Group's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- review and adoption of budgets and forecasts and monitoring the results against stated targets.

The Board sets the corporate strategy and financial targets with the aim of creating long-term value for shareholders.

In accordance with Recommendation 1.2, the Board undertakes appropriate checks before appointing a new director, or putting forward to shareholders a candidate for election and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Group has a written agreement with each director and senior executive, setting out the terms of their appointment, in accordance with Recommendation 1.3. The Company Secretary is accountable directly to the Board on all matters to do with the proper functioning of the Board, in accordance with Recommendation 1.4.

At this stage of the Group's development, considering the very small size of the workforce and the specialist nature of most positions, the Board has chosen not to establish a formal diversity policy or formal objectives for gender diversity, as recommended in Recommendation 1.5. The Group does not discriminate on the basis of age, ethnicity, religion, gender or sexuality and when a position becomes vacant the Group seeks to employ the best candidate available for the position. Currently all of the directors are male. One of the four senior executives (defined as those who report to an executive director) is female. The Group currently has 9 employees and consultants, from different cultural backgrounds, of which 4 are women.

The performance of the Board, its committees and individual directors is periodically evaluated in accordance with Recommendation 1.6. Each director completes a quantitative evaluation questionnaire and is able to provide qualitative comments. The Company Secretary collates the responses and reports back to the board for discussion. A performance evaluation was not undertaken during 2017, however the Board is currently assessing the optimum membership and structure to support the business in 2018, with a view to appointing at least one additional director.

In accordance with Recommendation 1.7, the Board periodically evaluates the performance of the Executive Chairman and the Executive Chairman periodically evaluates the performance of senior executives. The evaluation of the Executive Chairman is part of the board performance evaluation process. For the evaluation of senior executives, an Individual discussion is held after each senior executive complete a qualitative questionnaire, covering past individual and team achievements and challenges, as well as forward-looking outcomes and areas of personal focus. Performance evaluations were not undertaken during 2017, being deferred until after completion of a transaction to secure the funding and execution of Phase 3 development for Rett syndrome.

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PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

The Board has not considered it necessary or value-adding to establish a separate Nomination Committee (Recommendation 2.1). The selection, appointment and retirement of directors is considered by the full Board, within the framework of the skills matrix described below. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications. The composition of the board is discussed regularly and each director may propose changes for discussion.

In accordance with Recommendation 2.2, the Company has a skills matrix setting out the mix of skills that the Board is looking to achieve in its membership. The matrix is summarised in the table below.

Skill	Requirements Overview
Professional Director Skills	
Risk & Compliance	Identify key risks to the organisation related to each key area of operations. Ability to monitor risk and compliance and knowledge of legal and regulatory requirements.
Financial & Audit	Experience in accounting and finance to analyze statements, assess financial viability, contribute to financial planning, oversee budgets and oversee funding arrangements.
Strategy	Ability to identify and critically assess strategic opportunities and threats to the organization. Develop strategies in context to our policies and business objectives.
Policy Development	Ability to identify key issues for the organisation and develop appropriate policy parameters within which the organization should operate.
Executive Management	Experience in evaluating performance of senior management, and oversee strategic human capital planning.
Previous Board Experience	The board's directors should have director experience and have completed formal training in governance and risk.
Industry Specific Skills	
Pharmaceutical product development	Experience in and/or understanding of the issues in clinical development, interactions with international regulators and/or CMC development.
International pharmaceutical commercialisation	Experience in and/or understanding of the issues in entering international pharmaceutical markets, including pricing, distribution and exclusivity.
Pharmaceutical partnering	Experience in and/or understanding of the issues in partnering transactions and/or relevant contacts in international pharma companies.
Risk capital management	Experience in raising funding from equity markets and/or relevant contacts in relevant funds and/or investment banks.
Intellectual property	Understanding of the importance and value of market exclusivity and the various ways of protecting it across different jurisdictions, including patents and data exclusivity.
Interpersonal Skills	
Leadership	Make decisions and take necessary actions in the best interest of the organisation, and represent the organisation favorably. Analyze issues and contribute at board level to solutions. Recognise the role of the board versus the role of management.
Ethics and Integrity	Understand role as director and continue to self educate on legal responsibility, ability to maintain board confidentiality, declare any conflicts.
Contribution	Ability to constructively contribute to board discussions and communicate effectively with management and other directors.
Crisis Management	Ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders.

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The Board is highly engaged in the oversight and direction of the business. During the year to 31 December 2017, there were four members, as set out in the table below. Details of the relevant skills, experience and expertise of each Board member are set out on page 26 of this report.

	Appointment	Role	Independent	Committees
Richard Treagus	2013	Executive Chairman	No ¹	
Larry Glass	Board - 2012 Management - 2004	Executive director Chief Science Officer	No ¹	
Bruce Hancox	2012 (Resigned 31 December 2017)	Non-executive director	No ¹	Member of Audit Committee and Remuneration Committee
Trevor Scott	2002	Non-executive director	Yes	Chair of Audit Committee and Remuneration Committee

¹ Richard Treagus and Larry Glass are not considered independent due to their executive roles. Bruce Hancox was not considered independent because he provides advisory services to a substantial Neuren shareholder.

The directors believe that the structure, small size and membership profile of the Board has provided the maximum value to the business at its stage of its development, notwithstanding that they do not follow Recommendations 2.4 and 2.5. The Board does not have a majority of independent directors (Recommendation 2.4), the chair is not independent (Recommendation 2.5) and the chair and principal executive officer roles are not separate (Recommendation 2.5).

Following Bruce Hancox's departure on 31 December 2017, the Board is assessing the optimum membership and structure to support the business in 2018 and intends to appoint at least one additional independent director.

In accordance with Recommendation 2.6, the Company has a program for inducting new directors and provides appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board has established a Code of Conduct, which requires that Board members and executives:

- will act honestly, in good faith and in the best interests of the whole Company
- owe a fiduciary duty to the Company as a whole
- have a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office
- will undertake diligent analysis of all proposals placed before the Board
- will act with a level of skill expected from Directors and key executives of a publicly listed Company
- will use the powers of office for a proper purpose, in the best interests of the Company as a whole
- will demonstrate commercial reasonableness in decision-making
- will not make improper use of information acquired as Directors and key executives
- will not disclose non-public information except where disclosure is authorised or legally mandated
- will keep confidential information received in the course of the exercise of their duties and such information remains the property of the Company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the person from whom the information is provided, or required by law
- will not take improper advantage of the position of Director or use the position for personal gain or to compete with the Company
- will not take advantage of Company property or use such property for personal gain or to compete with the Company
- will protect and ensure the efficient use of the Company's assets for legitimate business purposes
- will not allow personal interests, or the interest of any associated person, to conflict with the interests of the Company
- have an obligation to be independent in judgement and actions and Directors will take all reasonable steps to be satisfied as to the soundness of all decisions of the Board
- will make reasonable enquiries to ensure that the Company is operating efficiently, effectively and legally, towards achieving its goals

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- will not engage in conduct likely to bring discredit upon the Company
 - will encourage fair dealing by all employees with the Company's customers, suppliers, competitors and other employees
 - will encourage the reporting of unlawful/unethical behaviour and actively promote ethical behaviour and protection for those who report violations in good faith
 - will give their specific expertise generously to the Company
 - have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code of Conduct
- audit of legal compliance including trade practices, corporations law, occupational health and safety and environmental statutory compliance, and compliance with the Listing Rules of the ASX;
 - supervision of special investigations when requested by the Board;

In undertaking these tasks the Audit Committee meets separately with management and external auditors where required.

Notwithstanding that the New Zealand Companies Act 1993 does not require it, in accordance with Recommendation 4.2, the Board also seeks assurances in writing from the Executive Chairman and the Chief Financial Officer that the annual financial statements present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with New Zealand Accounting Standards and that this is founded on a sound system of risk management and internal control that is operating effectively in all material respects with regard to financial reporting risks. The Board received those assurances on 29 March 2018.

Since Neuren is incorporated in New Zealand and applies New Zealand financial reporting standards, its auditor is located in New Zealand. The Board has considered it impractical and an unnecessary expense for the auditor to travel to Australia to attend the annual general meeting, as suggested in Recommendation 4.3. The Company's constitution has been amended to enable the Board in future to convene virtual shareholder meetings, with participation by electronic means.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has an Audit Committee, which during the year to 31 December 2017 consisted of the two non-executive directors, Trevor Scott and Bruce Hancox. The independent director Trevor Scott chairs the Committee. The Audit Committee consists of only non-executive directors and is chaired by an independent director as suggested in Recommendation 4.1, but it does not have at least 3 members or a majority of independent members. The Committee met twice during 2017, attended by all members. Following the departure of Bruce Hancox on 31 December 2017, the Board intends to appoint another independent director to serve on the Audit Committee.

The Committee operates under a charter approved by the Board, a summary of which is available on the Neuren website. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Group's internal financial controls and legal compliance obligations. In respect of financial reporting, it is also responsible for:

- review of audit assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans and recommendations of the external auditors;
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts;
- review of the results of audits, any changes in accounting practices or policies and subsequent effects on the financial statements and make recommendations to management where necessary and appropriate;
- review of the performance and fees of the external auditor;

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

Neuren is required to comply with the continuous disclosure requirements as set out in the ASX Listing Rules, disclosing to the ASX any information that a reasonable person would expect to have a material effect on the price or value of Neuren's securities, unless certain exemptions from the obligation to disclose apply.

In accordance with Recommendation 5.1, the Board has approved policies and procedures to ensure that it complies with its disclosure obligations and that disclosure is timely, factual, clear and objective. The Board has designated the company secretary as the person primarily responsible for implementing and monitoring those policies and procedures. A summary of the policies and procedures is available on the Neuren website. All information disclosed to the ASX is placed on the Neuren website after it has been published by the ASX.

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PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Board strives to communicate effectively with shareholders, give them ready access to balanced and understandable information about the business and make it easy for them to participate in shareholder meetings.

In accordance with Recommendation 6.1, comprehensive information about the Company and its governance is provided via the website www.neurenpharma.com. This includes information about the Board and senior executives, as well as corporate governance policies. All announcements, presentations, financial information and meetings materials disclosed to the ASX are placed on the website, so that current and historical information can be accessed readily.

The Company's investor relations program facilitates effective two-way communication with investors (Recommendation 6.2). The Executive Chairman and the Chief Financial Officer interact with institutional investors, private investors, analysts and media on an ad hoc basis, conducting meetings in person or by teleconference and responding personally to enquiries.

The Board seeks practical and cost-effective ways to promote informed participation at shareholder meetings (Recommendation 6.3). This includes providing access to clear and comprehensive meeting materials and electronic proxy voting. The Company's constitution has been amended to enable the Board in future to convene virtual shareholder meetings, with participation by electronic means.

In accordance with Recommendation 6.4, shareholders are provided with and encouraged to use electronic methods to communicate with the Company and with the share registry.

PRINCIPLE 7. RECOGNISE AND MANAGE RISK

The Board has established policies for the oversight and management of material business risks, a summary of which is available on the Neuren website. The Board does not have a separate committee to oversee risk, judging that the whole Board is better able to conduct that function efficiently and effectively, given the small size of the Board and the specialised nature of the business (Recommendation 7.1).

In accordance with Recommendation 7.2, the Board reviews the Group's risk management framework at least annually to satisfy itself that it continues to be sound. A review was conducted in 2017.

The size and complexity of the Group's business is not sufficient to warrant an internal audit function (Recommendation 7.3). The risk management policy is designed to involve the entire organisation in risk management and to ensure that the effectiveness of the risk management and internal control processes are continually improved.

The Group does not have a material exposure to economic, environmental or social sustainability risks (Recommendation 7.4).

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PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

Neuren believes having highly skilled and motivated people will allow the organisation to best pursue its mission and achieve its goals for the benefit of shareholders and stakeholders more broadly. The ability to attract and retain the best people is critical to the Company's future success. The Board believes remuneration policies are a key part of ensuring this success.

The Board has a Remuneration Committee, which during the year to 31 December 2017 consisted of the two non-executive directors, Trevor Scott and Bruce Hancox. The independent director Trevor Scott chairs the Committee. The Remuneration Committee is chaired by an independent director as suggested in Recommendation 8.1, but it does not have at least 3 members or a majority of independent members. The Committee was not required to meet in 2017. Following the retirement of Bruce Hancox on 31 December 2017, the Board intends to appoint another independent director to the Board and the Remuneration Committee.

The Committee operates under a charter approved by the Board, a summary of which is available on the Neuren website. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Group's remuneration policies. It is also responsible for:

- setting and reviewing compensation policies and practices of the Company;
- setting and reviewing all elements of remuneration of the directors and members of the executive team; and
- setting and reviewing long term incentive plans for employees and/or directors.

In undertaking these tasks the Remuneration Committee meets separately with management where required.

The Group's remuneration policies and practices are summarised below, in accordance with Recommendation 8.2.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executive directors and senior executives on a regular basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality executive team. To assist in achieving these objectives, the nature and amount of executive remuneration is linked to the Company's performance. Remuneration consists of fixed cash remuneration, including superannuation contributions required by law, and equity-based remuneration. Fixed cash remuneration takes into account labour market conditions, as well as the scale and nature of the Group's business. Equity-based remuneration is provided by participation in a share option plan, a loan funded share plan and equity performance rights. These are designed to ensure that key executives are aligned with shareholders through an interest in the long-term growth and value of the Company. Senior executive service agreements generally include a requirement for 3 months' notice of termination by the executive or the Group. There are no other termination payments. Termination for misconduct does not require notice or payment.

Remuneration of non-executive directors comprises fixed cash fees only. The fees are determined by the Board within the aggregate limit for directors' fees approved by shareholders. Non-executive directors receive no retirement benefits.

Participants in equity based remuneration schemes are not permitted to enter into transactions which limit the economic risk of participating in the scheme (Recommendation 8.3).