

Risk management approach

Risk management is undertaken to provide a structured and transparent approach to managing risk across the Cytopia group of companies. The *Risk management policy and framework* provides a detailed methodology for a systematic and consistent identification, assessment and management of risk across the organisation. The policy and framework also defines reporting processes to ensure organisational exposures are managed at an appropriate level across the organisation.

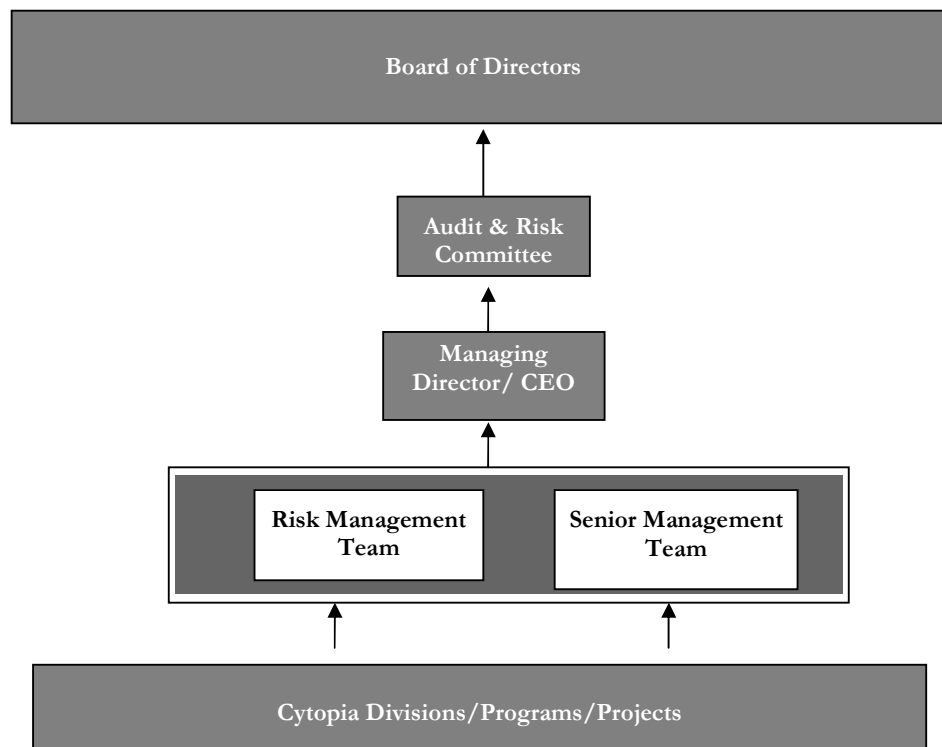
Cytopia operates in the high risk environment of pharmaceutical research and development. The company has adopted the following risk categories listed below. These categories assist risk identification, measurement and provide a basis for organising and reporting outcomes. The number of categories reflects the diversity and complexity of Cytopia's operations.

| Risk Categories | Broad Definitions |
|----------------------------|--|
| Corporate | Risks relating to the management or maintenance of Cytopia's key assets including the company's drug assets and IP; property, plant and equipment and environment. |
| Financial | Risks associated with the development, collection, storage and reporting of financial information vital to sustaining the management of Cytopia's operations. This category also includes risks associated with budgeting, management reporting and cost containment. |
| Business Continuity | Risks relating to the planning and processes required to maintain the continuity of business activities or recovery response to a disastrous event, which may impact the effectiveness of business operations. This includes internal and external activities and processes. |
| Human Resources | Risks associated with performance management and learning & development of Cytopia's staff. It also includes risks associated with managing the company's workforce including recruitment, remuneration, retention and industrial relationship management. |
| Legal | Risks relating to non-compliance with legislation, regulations, supervision or internal policies and procedures. This also includes all regulatory issues impacting Cytopia's operations. |
| OH&S | Risks associated with complying with OH&S legislation, internal policies and accreditation requirements. |
| Investor Impact | Risks associated with the company's perception amongst its shareholders, including the maintenance and growth of the company's share price. |

Roles and responsibilities

The board is ultimately responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The following structure and accountabilities have been established for the purpose of risk management within Cytopia and to ensure effective implementation of risk management processes across the group.

Structure



Accountabilities

The **audit and risk committee** is the recipient of reporting from the risk management team and ultimately, in conjunction with the board, approves the risk management policy, framework and risk tolerance of Cytopia

The managing director exercises certain authorities delegated to that position by the board and is answerable to the board in respect of key strategic issues. The managing director either delegates (to the risk management team) or takes ownership of fostering risk management across the organisation. The managing director ensures his/her direct reports performance evaluation incorporates an element relating to risk management.

The **risk management team**, in consultation with the managing director and the audit and risk committee, is responsible for establishing, overseeing, reviewing and maintaining Cytopia's risk management framework. This is achieved through the development of sufficient infrastructure to identify measure, manage and report risks.

The risk management team performs the following risk management support functions:

- independent monitoring and reporting of operational risk activities for Cytopia;
- reporting on the risk profiles and risk mitigation plans of Cytopia;
- maintenance of a central risk register and loss database for recording potential and actual risk events identified throughout Cytopia;
- recommend education and training of operational risk practices and processes; and
- ongoing maintenance of the framework.

The **managing director's direct reports (senior management team)** have responsibility and accountability for the management of risk in their respective areas of responsibility. Specific duties include:

- ensuring risk management processes are in place and operating effectively;
- reporting risk events in accordance with the reporting process included in the framework;
- developing and maintaining a register of risks for divisions/programs within their respective portfolios; and
- implementing measures to appropriately resolve risk issues as they are identified, within their respective lines.

All staff across Cytopia are responsible for observing the company's policies, procedures, delegations and minimising risks to the organisation, at all times.

Internal reporting and control systems

The managing director and chief financial officer are required to regularly report to the board on various matters and to adhere to and follow clearly defined guidelines. To assist in discharging its responsibility, the board requires:

- regular financial and management reporting. There is a comprehensive budgeting system with an annual budget approved by the board (revised, if necessary, mid-term). Actual results are reported against budget on a monthly basis and revised forecasts for the year are prepared regularly.
- regular functional specialty reporting. The company has identified a number of key areas which are subject to regular reporting to the board, including progress towards the achievement of critical research and commercialisation milestones, fund raising activities and external communications.

An internal audit is also conducted by the risk management team on an annual basis to understand the risks facing Cytopia and the status of management's actions to mitigate against these risks. The results of the audit will then be passed on to the managing director who will convey the results to the audit committee.

External audit

An independent, external audit is performed annually on the financial report of Cytopia, with an independent review performed on the half yearly financial report. This provides reasonable assurance as to whether the financial report is free of material misstatement and provides an independent opinion whether the financial reports are presented fairly and in accordance with accounting standards and other professional reporting requirements.

An external audit is also to be conducted periodically to provide an independent examination and evaluation of risk mitigation plans (policies, procedures, systems) in place to manage risk within acceptable tolerance limits. The auditor will work closely with the managing director to understand the risks facing Cytopia; avoid duplication of services with assurance providers, and will use risk management information to assist in determining the level of reliance on key systems.