

Fluorotechnics Limited

Fluorotechnics Corporate Governance Practices

BACKGROUND

The company was listed on ASX in October 2008, in conjunction with the Initial Public Offering. At that time, the directors considered the structures, policies and codes of behaviour for the company, which were appropriate for its size and stage of development.

A process of development and review will continue as the company grows and the directors determine best practice for the company.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The board is committed to a culture of best practice governance which is appropriate to Fluorotechnics and has considered the principles and recommendations of ASX in establishing its policies, procedures and codes.

The board considers that it generally complies with the principles and recommendations, but for the exceptions that the non-executive chairman, Mr Rick Taylor, is not an independent director and the Code of Conduct needs further development and documentation.

Chairman

The Chairman, Mr Rick Taylor, is not considered to be an independent director due to him being a substantial shareholder and a director of the holding company of a substantial shareholder (Hunter Hall International Limited). In all other respects, the board considers Mr Taylor to be of independent mind. Mr Taylor is one of the founders of the company and the board considers him to be the most appropriate person to be Chairman of the board at this time of development of the company following the IPO.

The board's policies and charters are set out in full in the corporate governance charter which can be found on the website under investor relations – www.fluorotechnics.com. A summary follows:

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Governance Roles

The Board

The company has established functions reserved for the board. These include:

- Strategy, including budget approval, performance, capital management and major capital expenditure.
- Risk management.
- Appointment and removal of the CEO and ratifying appointment of executives reporting to the CEO, executive remuneration, succession planning and delegating authority to the CEO.
- Monitoring the performance, including assessment of executives, the board and setting goals.
- Corporate governance.
- Board committees – establishing committees and their charters.

Details are available on the company's website, including the board charter.

Management

The board has established functions delegated to senior management, via the CEO. These include:

- Management, through the CEO, is responsible for the day-to-day management of the company and is restricted as follows:
 - CEO has authority to commit the company to items with obligations not exceeding A\$250,000.
 - All proposed business acquisitions, irrespective of size, must be approved by the board.
 - All media releases, ASX announcements and other information to be provided to analysts must be subject to review and discussion by the CEO with the Chairman.

Details are available on the company's website regarding the responsibilities of management.

Performance evaluation

Board and Committees

The board, through the Chairman, will carry out an annual evaluation to review the:

- Performance of the board compared to the requirements of the charter
- Setting of goals and objectives
- Performance of the committees
- Charter as required

The board may, from time to time, use an independent adviser to assist in the reviews.

Management

The board has established the principles for evaluating the performance of senior executives. These will be developed further during the next year under the charter of the Remuneration and Nominations Committee.

An evaluation of senior executives took place during the year by the Remuneration and Nomination Committee, which was in accordance with the procedures of the board.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Composition and balance of skills of directors

The composition of the board is critical for the success of the company and the number of directors and their skills will vary from time to time, depending on the circumstances of the company, as follows:

- The board will determine the appropriate number of directors from time to time.
- The board will comprise a variety of persons with diverse skills and experience relevant to the company and its circumstances at the time, and have regard to the geographical spread of the company's operations.
- The CEO will be a director and will also have the title of Managing Director.

Independence of Directors

The board will review annually whether or not each director is independent. It believes that the best interest of the company will be served by the majority of directors being independent.

The positions of Chairman and CEO will not be held by the same person.

The board currently contains 4 independent and 2 non-independent directors.

The status of each director is as follows:

- R. Taylor – non-executive chairman non-independent
- J. Fletcher – non-executive director independent
- P Bergquist – non-executive director independent
- D. Weber - non-executive director independent
- L. Utterman – non-executive director independent
- J. Walker – CEO & MD non-independent

The definition of director independence used by the company is set out in the ASX corporate governance recommendation 2.1. Materiality levels will be determined in each case by the board, having regard to the circumstances at the time.

The board believes in the renewal of board members to ensure the ongoing vitality of the company. Generally, directors will serve for 10 years and will not seek re-election at the next AGM at which they retire by rotation, unless unanimously agreed otherwise by the other non-executive directors.

Appointment of Directors

If the board determines that there is a need to appoint another director for any reason the Remuneration and Nomination Committee will:

- Determine the skills, experience, qualifications appropriate, having regard to those existing directors.
- Agree the process to seek such a person.
- Set a timetable to appoint, having regards to the timing of the AGM and the requirements of the constitution.

Access to Independent Advice

Directors may obtain independent experts' advice to enable them to fulfil their obligations, at the expense of the company, and after obtaining approval from the Chairman.

This right was not utilised during the year.

Directors' Induction

The objective of directors' induction is to inform the directors such that they can become as effective a director as possible, as soon as practical.

Induction covers director's duties, the company's business and board structures, policies and issues.

Director Indemnification, Access and Insurance

To enable directors to fulfil their obligations, they must have access to information. It is also considered appropriate that directors, during and after their period of service, have access for a proper purpose, including defending a legal action, to the company's records. It is also common practice for directors to be indemnified out of the assets of the company, except where there has been a wilful breach of duty. It is also common practice for companies to maintain Directors and Officers' Liability Insurance.

It is a policy of this board that deeds of protection, covering the above matters (and other appropriate matters) will be entered into with each of the directors. Shareholder approval was obtained at the 2008 AGM to enter into deeds with the existing directors and to enter deeds with future directors.

Performance Review

The company has established a Remuneration and Nomination Committee. Details of the charter of the committee are available on the website. The names of the members of the committee and their attendance at meetings are shown separately in this annual report.

Evaluation of the performance of the board has not taken place in view of the short period since the IPO and listing but will be completed prior to the 2009 AGM.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

The company is in the process of developing a code of conduct.

Code of Conduct of Directors

The directors are expected to use their skills commensurate with their knowledge and experience to increase the value of the company. To meet this obligation they must act honestly and should:

- Execute due care and diligence.
- Not misuse information or their position for their own gain.
- Avoid or fully disclose conflicts.
- Ensure that the market is fully informed of all matters that require disclosure.
- Actively promote the reputation of the company.

Conflicts of interest that arise must be immediately disclosed and addressed by eliminating the conflict, abstaining from participation or, in exceptional cases, resigning.

Directors must comply with the law on disclosure of benefits and related party transactions. Directors must have access to all relevant information on the company and this is to be sought through the CEO or agreed arrangements.

All directors must maintain strict confidentiality in relation to company matters.

Directors must be aware of insider trading laws and strictly abide by the law and company policies.

Directors are to ensure that the financial statements are drawn up to comply with Australian Corporations Law and Accounting Standards.

Directors must also be aware of environmental impacts of the company's business and ensure the health, safety and wellbeing of the employees.

Deeds of access and indemnity insurance will be entered into with the directors to the extent permitted by law.

Code of Conduct for Employees

The purpose of the code of conduct being developed is to:

- Ensure compliance with all relevant legislation.
- Fulfil the reasonable expectation of the communities in which the company operates by acknowledging the rights of various stakeholders.
- Enhance the reputation of the company with the financial and broader community.
- Improve the performance of the company.
- Inform employees of the board's expectation of them, including the obligations of raising and pursuing concerns of non-compliance or unethical behaviour, and
- Assisting in achieving the company's vision.

The code acknowledges the responsibility to shareholders, employees and the community. Other matters to be covered by the code include commitments to:

- Quality systems, products and services.
- Confidentiality and to not use knowledge or position improperly.
- Compliance with laws and regulations.

Trading in Securities

Directors and senior executives must first notify the Chairman of intention to trade in the company's securities.

Subject to the below, the recommended time (in terms of avoiding suggestions of insider trading) for any Director or employee to deal in Company securities is during any period other than the following:

- 1 July until commencement of trading on the day after the date of the Company's full-year profit announcement;
- 1 January until commencement of trading on the day after the date of the Company's half-year profit announcement, or

provided that the person is not in possession of any inside information relating to those securities.

This policy relates to directors and executives, spouses and other parties over whom they have significant influence.

Interaction with the Media

To ensure clear and consistent messages to the stock exchange and the media, unless specifically approved otherwise, the Chairman and CEO are the only authorised spokespersons of the company.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Certificate from CEO / CFO

The CEO / CFO has provided a certificate to the board regarding the financial reports providing a true and fair view and being in accordance with accounting standards.

Audit Committee

The company has established an Audit and Risk Committee. The committee comprises only non-executive directors, the chairman is an independent director and not the chairman of the board and the majority of the members are independent directors.

The CEO attends meetings of the committee, by invitation.

The auditor attends meetings as agreed, including the meetings relating to the half-year and full-year financial statements.

The details of the members of the committee, their experience and attendance at meetings are included elsewhere in this report.

The charter of the committee is on the company's website.

The responsibility of the committee includes:

- Risk management – ensuring policies are in place to identify, monitor treatments and to approve management's risk management plan.
- Financial reporting – including quarterly, half-year and full-year financial reporting and review of significant accounting policies.
- Reporting to the board on significant issues and making recommendations, as appropriate.
- Assessment of the adequacy of accounting, financial and internal controls, including receiving reports from the auditors on those matters.
- Appointment and assessment of external auditors and agreeing the scope of the external audit.
- Pre-approval of audit and non-audit services to be provided by the external auditor.
- Monitor the process in place to ensure compliance with laws and regulations.
- Ensure procedures are in place to address complaints regarding accounting matters.
- Assess performance of the committee annually.

External Auditors

The committee is responsible for:

- Selection of an auditor for recommendation to the board and shareholders.
- Reviewing the performance of the auditor.
- Approving non-audit work to be carried out by the auditor to ensure that it will not compromise the independence of the audit.
- Ensuring appropriate rotation of the audit engagement partner to comply with legislation.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The company has established written policies designed to ensure compliance with ASX Listing Rules and Corporations Act continuous disclosure requirements.

The policies identify the executives of the company accountable for compliance with the regulations and the company policy.

The policy is available on the company's website.

The policy is designed to provide shareholders and the market with timely, direct and equal access to information issued by the company and to promote investor confidence in the integrity of the company and its securities.

ASX announcements and press releases are available on the company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Communication Policy

The board will seek to ensure that shareholders are informed of all major developments affecting the company's state of affairs through:

- The annual report.
- Disclosures made to ASX.
- Notices and explanatory memorandum of the Annual General Meetings.
- The company's website, www.fluorotechnics.com.
- The engagement partner of the auditor is to be present at the AGM and be available to answer relevant questions.

All ASX and press releases and other documents (eg. prospectuses, rights issue documentation, etc.) are available on the company's website.

Stakeholders are able to have access to their shareholder account in the register of members by accessing the Registries Limited website – www.registriesltd.com.au, then InvestorServe. In addition, a whole range of registry forms are available under "Forms" on the Registries homepage, to assist shareholders.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Certificate from CEO / CFO

James Walker as the CEO / CFO has provided a certificate to the board advising that the statement on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the board of directors. The certificate also states, to their knowledge, that the risk management and internal compliance and control systems of the company and consolidated entities, are operating efficiently and effectively in all material respects.

Risk Management and Internal Compliance and Control

The board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policy via the Audit and Risk Committee. This includes:

- Establishing and monitoring the company's strategies, goals and objectives.
- Identifying and measuring risks that might impact on the achievement of those strategies, goals and objectives.

- Formulating risk management strategies and treatments to manage the identified risks.
- Monitoring and improving the effectiveness of risks and internal compliance controls.

Audit and Risk Committee

The audit and risk committee has been through an extensive process following Australian Standard 4360 on risk management, and has identified and analysed the company's risks and agreed the management and treatment of the risks and identified the officers responsible for the treatment of those risks.

The committee has agreed a timetable to periodically:

- Review the treatments of those risks to ensure that they are still appropriate, and
- Review the risks for currency and to identify new and changing risks and to ensure treatments of those risks are effective and appropriate.

Management is expected to raise with the Audit and Risk Committee, as situations arise that may warrant a review of any risk and/or its treatment.

The general area of risks covered in the above process included:

- Sales.
- Working capital.
- New products.
- Competition.
- Production.
- Human resources and key personnel.
- Foreign exchange rates.
- Intellectual property.
- Quality systems.
- Financial controls.
- Stakeholders.

Internal Controls

Internal controls have been developed and will be continually under review and improved as necessary as an important element in the treatment of many risks.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Policies

Non-Executive Directors

Fees paid to non-executive directors would generally be around the market average and such fees would be inclusive of statutory superannuation. Directors will not be entitled to a termination benefit, other than statutory entitlements. Directors will not participate in share or option plans, except with approval of the shareholders.

The fee pool available to the board is \$300,000. From this pool, the Chairman receives an annual fee of \$75,000 and non-executive directors \$50,000.

Shareholders approved the issue of 5-year options to non-executive directors in 2008 as follows:

- Rick Taylor - 180,000 options
- Peter Bergquist – 100,000 options
- John Fletcher – 100,000 options
- David Weber – 100,000 options

Senior Executive

Remuneration packages will generally be set to be competitive to both retain executives and attract executives to the company. Packages will comprise a fixed element and variable incentive components.

Short-term incentives will be in the form of cash and be subject to various performance measures linked to the short-term objectives of the company.

Long-term incentives will be through participation in option plans or an issue of options, the exercise of which will be subject to achievement of major performance milestones.

Termination benefits, other than statutory entitlements, will not exceed 6 months. However, the current senior executives have fixed term contracts with periods remaining of greater than this amount but once these periods are completed the policy of six months will be adopted.

Remuneration and Nomination Committee

A Remuneration and Nomination Committee has been established. The charter of the committee is available on the company's website.

The committee chairman is an independent non-executive director and is not the chairman of the board.

All members of the committee are non-executive directors and the majority are independent.

The details of the members' qualification and experience, and attendance at meetings are set out elsewhere in this report.

The role of the committee includes:

- Providing advice in relation to remuneration packages of senior executives, non-executive directors and executive directors, equity-based incentive plans and other employee benefit programs.
- Reviewing the company's recruitment, retention and termination policies.
- Reviewing the company's superannuation arrangements.
- Reviewing succession plans of senior executives and executive directors.
- Recommending individuals for nomination as members of the board and its committees.
- Ensuring the performance of senior executives and members of the board are reviewed at least annually.
- Considering those aspects of the company's remuneration policies and packages, including equity-based incentives which should be subject to shareholder approval.
- Monitoring the size and composition of the board.

For further information refer to the Remuneration Report, included in the Directors' Report.