

Micro-X Limited ACN 153 273 735

Fraud and corruption policy

1. Purpose

The purpose of this policy is to protect the assets and reputation of Micro-X Limited ACN 153 273 735 (**Company**) by:

- (a) reinforcing the commitment and responsibility of the board of directors of the Company (**Board**) and the senior management to identify fraudulent and corrupt activities and for establishing policies, controls and procedures for prevention and detection of these activities;
- (b) reinforcing the requirement for all employees and others to refrain from corrupt and fraudulent conduct and encourage the reporting of any instance of fraud or corrupt conduct;
- (c) providing a framework for conduct of investigations to ensure that all suspected fraudulent and corrupt activity is dealt with appropriately; and
- (d) to assign responsibility for the development of controls to prevent and detect fraud.

2. Scope

- 2.1 This policy applies to all officers, employees (including directors, executives and managers) and contractors of the Company and its subsidiary companies.
- 2.2 Any irregularity or suspected irregularity involving a shareholder, vendor, consultants or any other third party agencies doing business with the Company or its officers, employees or contractors, is included in the scope of this policy.
- 2.3 The policy does not have regard to the officer's, employee's or contractor's length of service, title or relationship to the Company.

3. Legislative landscape

Many jurisdictions in which the Company does or may do business have introduced specific legislation to counter fraud and corruption. For example, Australia has the *Criminal Code Act 1995* (Cth), the United States has the Foreign Corrupt Practices Act of 1977 and the United Kingdom has the *Bribery Act 2010*. Such legislation has implications for how the Company operates.

4. Definition of fraud and corruption

- 4.1 **Corruption** is defined (for the purposes of this policy) as a dishonest activity in which a director, officer, executive, manager, employee or contractor of an entity acts in a manner that is contrary to the interests of the Company and abuses his/her position of trust in order to achieve some personal gain or advantage for him or herself or for another person or entity.
- 4.2 Examples of corrupt conduct include, but are not limited to:
 - (a) payment of secret commissions (bribes, facilitation payments or gratuities) in money, or some other value, to other businesses, individuals or public officials;

- (b) receipt of bribes or gratuities from other businesses, individuals or public officials;
- (c) release of confidential information, for other than a proper business purpose, sometimes in exchange for either a financial or non-financial advantage;
- (d) a staff member manipulating a tendering process to achieve a desired outcome; and
- (e) a conflict of interest involving a staff member acting in his or her own self-interest rather than in the interests of the Company.

4.3 **Fraud** is defined as an intentional act by one or more individuals among management, those charged with governance, officers, employees, contractors or other third parties, involving the use of deception to obtain an unjust or illegal advantage.

4.4 A fraud can typically result in actual or potential financial loss to any person or entity however this is not always the case.

Examples of fraud could include, but are not limited to:

- (a) misappropriation of funds, securities, stock, supplies or other assets including use of assets for private purposes;
- (b) causing a loss to the Company or creating a liability for the Company by deception;
- (c) impropriety in the handling or reporting of money or financial records;
- (d) profiting from insider knowledge of the Company's activities or intended activities;
- (e) accepting or seeking anything of value from contractors, vendors or persons providing services or goods to the Company;
- (f) false invoicing for goods or services never rendered or backdating agreements;
- (g) submission of exaggerated or wholly fictitious accident, harassment or injury claims; and
- (h) misuse of sick or family leave.

5. Policy

5.1 The Company requires all officers, employees and contractors at all times to act honestly and with integrity and to safeguard the Company resources for which they are responsible. The Company is committed to protecting all revenue, expenditure and assets from any attempt to gain illegal financial or other benefits.

5.2 Any fraud or corruption committed against the Company is a major concern and as a consequence all cases will be thoroughly investigated and appropriate disciplinary action will be taken against any staff member who is found guilty of corrupt or fraudulent conduct. This may include referral to the appropriate law enforcement or regulatory agencies for independent investigation.

6. Code of conduct

The Company's code of conduct assists in preventing fraud and corruption within the Company and the Company specifically requires officers, employees and contractors to comply with the code.

7. Fraud and corruption control

7.1 The Board and senior management intend to 'set the tone at the top' in respect of fraud and corruption control and shall:

- (a) ensure that there is an effective fraud and corruption risk management framework in place;
- (b) understand the fraud and corruption risks to which the Company is exposed;
- (c) maintain oversight of the fraud risk assessment and the controls in place to mitigate the risks identified; and
- (d) monitor reports on fraud risks, policies and control activities that include obtaining assurance that the controls are effective.

7.2 The Chief Financial Officer/Financial Director (**CFO**) and each executive director shall:

- (a) foster an environment within their businesses that makes active fraud and corruption control a responsibility of all officers, employees and contractors;
- (b) articulate clear standards and procedures to encourage the deterrence of fraud and corruption; and
- (c) detect and report offences should they occur.

All officers, employees and contractors are responsible for complying with Company policies and procedures, codes of personal conduct and ethics, avoidance of conflict of interest and maintaining vigilance in early detection, reporting and prevention of fraud and corruption.

7.3 Managers and supervisors are responsible for:

- (a) communicating and raising awareness of the risks relating to fraud and corruption with their employees and for ensuring compliance with Company policies and procedures, adequate rotation of employees and levels of staffing are in place; and
- (b) establishing and maintaining adequate internal controls that provide for the security and accountability of Company resources and prevent/reduce the opportunity for fraud and corruption to occur.

7.4 The risk team (with the support of external auditors) has the primary responsibility for:

- (a) investigating internal and external fraud and corruption matters, including using external parties where required and notifying law enforcement or regulatory agencies as necessary;
- (b) conducting an annual fraud and corruption risk assessment via workshops with the businesses to assess the adequacy and effectiveness of the Company's fraud risk management processes;
- (c) ensuring that the risk of fraud and corruption is being appropriately managed and controlled by business units;
- (d) analysing loss trends arising from fraud; and
- (e) advising and assisting relevant business units in the implementation and maintenance of best practice techniques and controls to prevent and detect fraud and corruption.

7.5 The external auditors will be instructed, as part of their audit activity to:

- (a) assess the adequacy and effectiveness of the Company's fraud and corruption risk management processes, in line with the Company's risk management policies;
- (b) support the risk team with any investigation of any suspected fraud or corrupt activity;
- (c) monitor theft or misuse of inventory from distribution centres by auditing cycle counts and monitoring and investigating inventory variances;

- (d) deliver asset audits with a focus on protecting and substantiating Company assets, with the main focus of this aspect of their audits being on cash and point of sale procedures, inventory and shrinkage management, physical security and other asset and customer level processes;
- (e) ensure that fraud and corruption risk is being appropriately managed and controlled by business units when auditing business units including compliance with this policy; and
- (f) analyse loss trends arising from fraud and advise/assist relevant units, process owners and officers, employees and contractors in the implementation and maintenance of best practice techniques and controls to prevent and detect fraud and corruption.

Additionally, any specific fraud risks (with high or moderate risk rating) flagged by the annual fraud risk assessment will form part of the annual external audit program.

7.6 The People & Culture (human resources) team is responsible for:

- (a) ensuring that adequate procedures are in place that address:
 - (i) appropriate security screening and selection of officers and employees;
 - (ii) disciplinary/dismissal procedures;
 - (iii) employment contracts that include relevant conditions of employment relating to fraudulent and corrupt conduct;
 - (iv) monitoring of annual leave entitlements to ensure that officers, employees and contractors do not accumulate excessive annual leave entitlements i.e. four weeks over and above their yearly entitlement; and
 - (v) clarification and formalisation of responsibilities / segregation of duties (where possible, these should be included in relevant position descriptions);
- (b) providing regular training in respect of this policy that will:
 - (i) assist with the identification of fraud and corruption risk;
 - (ii) provide effective fraud and corruption mitigation techniques; and
 - (iii) enforce the Company's zero tolerance policy on fraud and corruption; and
- (c) ensuring that relevant officers and employees of the Company certify annually that they have complied with this policy and all applicable anti-fraud and corruption laws.

7.7 The CFO is responsible for making recommendations regarding the placement and maintenance of insurance cover for crime, fraud and fidelity risk for the Company.

7.8 The Company's finance team must implement robust processes and controls in relation to expenditure, investments and transfers of money. Provisions, losses and write offs in relation to fraud must be made in accordance with the Company's group accounting policies and procedures. Undisclosed or unrecorded funds, payments or receipts are prohibited.

7.9 The Company Secretary will provide advice and requisite management assistance regarding any prospective investigation or litigation linked to a fraud or corruption event.

7.10 Each officer and employee of the Company who has the authority to approve the appointment or engagement of a material contractual counterparty of the Company (**Counterparty**) must ensure that:

- (a) a Counterparty is suitable to be associated with the Company by conducting appropriate due diligence in relation to the appointment or engagement of that Counterparty;

- (b) a Counterparty's ongoing relationship with the Company is free from any element of fraud or corruption;
- (c) a Counterparty understands that it may be subject to appropriate diligence measures as a condition to its appointment or engagement by the Company;
- (d) any material agreement with a Counterparty must all include provisions requiring compliance with anti-fraud and corruption laws and should provide the Company with rights to satisfy itself of the Counterparty's compliance with those provisions; and
- (e) anti-fraud and corruption provisions also allow the Company to terminate arrangements with a Counterparty where a breach or anticipated breach of an anti-fraud or corruption law arises or where there is non-compliance with the requirements of the relevant provision.

8. Investigation protocols

- 8.1 If an investigation identifies that fraud or corruption has occurred, the risk team will escalate the matter in accordance with section 9 below.
- 8.2 Decisions to prosecute or refer the examination results to the appropriate law enforcement or regulatory agency will be made in conjunction with the Chief Executive Officer/Managing Director (CEO) and senior management, and in the case of a significant matter, with the Board.
- 8.3 In the event of an investigation, members of the investigating team will have free and unrestricted access to all of Company's records and premises. They will have the authority to examine, copy and remove any information within the scope of the investigation.

9. Reporting

- 9.1 Any officer, employee or contractor who suspects fraud or corrupt activity has the ability to report the matter confidentially through one of the following options:
 - (a) notifying his or her immediate manager or the People Director; or
 - (b) directly notifying the risk team led by the CFO.
- 9.2 It is the responsibility of all officers, employees and contractors to report all suspected, attempted or actual fraud or corruption incidents. All information received is treated confidentially by the risk team and its relevant supporting functions (asset protection and human resources).
- 9.3 Investigations will not be disclosed to, or discussed with, anyone other than those who have a legitimate need to know.
- 9.4 The table below outlines the escalation requirements upon receiving a report of suspected fraud or corruption.

Size and nature of report	Escalation
Any report of suspected fraud or corruption received by management	The CFO
Where the incident meets the definition of corruption (regardless of the financial impact)	The CFO will escalate to: <ul style="list-style-type: none"> • CEO • People Director The CFO will discuss the matter, including any legal action or required

Size and nature of report	Escalation
Where the incident is fraudulent in nature and the financial impact is greater than \$20,000	disclosure, with the CEO, the Board and the audit and risk committee of the Board as appropriate. The CFO will prepare an immediate report for the CEO and People Director. The CFO will discuss the matter, including any legal action or required disclosure, with the CEO, the Board and the audit and risk committee of the Board as appropriate.
Where the incident has a financial impact of less than \$20,000 and the matter can be immediately contained	The CFO will ensure the incident is reported in the monthly risk report to senior management.

10. Policy review

The CFO will initiate a review of this policy at least annually. Any proposed changes to this policy must be approved by the Board.

11. Approved and adopted

This policy was approved by the Board on 25 November 2015.