

# Corporate Governance Statement

## Introduction

The Board of PolyNovo is responsible for the corporate governance of the Group and guides and monitors the business on behalf of its shareholders. The Board has strived to reach a balance between industry best practice and appropriate policies for PolyNovo in terms of its size, stage of development and role in the biotechnology industry.

PolyNovo performed a review of its Board policies and governance practices with reference to the eight Principles of Good Corporate Governance (Principles) and the Best Practice Recommendations (Recommendations) established by the ASX Corporate Governance Council. The Recommendations are not mandatory and cannot, in themselves, prevent corporate failure or poor corporate decision-making. They are intended to provide a reference point for companies regarding their corporate governance structures and practices.

The Directors have considered each of the core Principles and Recommendations applicable for the year ended 30 June 2017. There are instances where the Group would not benefit from compliance with the Recommendations, and in some instances the Group has not had the resources to comply. The Recommendations that were not adopted are discussed in this Corporate Governance Statement.

## Principle 1: Lay Solid Foundations for Management and Oversight

### Recommendation 1.1

The role of the Board is to represent the interests of shareholders, by providing the Group with good governance and strategic direction. PolyNovo has adopted a Board Charter setting out the matters reserved to it, including its function and responsibilities and those delegated to management.

PolyNovo delegates authority to Senior Management for the day-to-day running of the business in accordance with the agreed delegations. Senior Management reports directly to the Chief Executive Officer.

The Board Charter is available at [www.polyново.com.au/company](http://www.polyново.com.au/company) in the corporate governance section.

### Recommendation 1.2

PolyNovo considers the character, industry or relevant experience, education and skillset, as well as interests and associations of candidates for appointment to the Board and conducts appropriate checks to verify the suitability of the candidate, prior to their election.

PolyNovo ensures that all material information relevant to a decision to elect or re-elect a Director is disclosed in the notice of meeting provided to shareholders.

### Recommendation 1.3

The roles and responsibilities of Directors are set out in the letter of appointment, which each Director receives and commits to on their appointment. The letter of appointment specifies the time commitment, expectations in relation to committee work or any other special duties attaching to the Director position, reporting lines, remuneration arrangements, disclosure obligations in relation to personal interests, confidentiality obligations, insurance and indemnity entitlements and details of the Company's key governance policies. A copy of the governance policies can be found on the PolyNovo website.

Each Senior Executive enters into a service contract that sets out the material terms of employment, including a description of position and duties, reporting lines, remuneration arrangements and termination rights and entitlements. Contract details of those Senior Executives who are designated key management personnel are summarised in the Remuneration Report section of the Annual Report.

### Recommendation 1.4

The Company Secretary is accountable to the Board for ensuring the Company's corporate governance processes are adequate. The appointment or removal of the Company Secretary is a matter for the Board. Details of the Company Secretary's experience and qualifications are set out in the Directors' Report section of the Annual Report.

### Recommendation 1.5

PolyNovo has adopted a Diversity Policy setting out its objectives with respect to diversity. The policy is available in the corporate governance section on the Company's website.

As at 30 June 2017 the Group has twenty-nine fulltime employees, fifteen male and fourteen female.

As at the date of this report, the Board of PolyNovo does not have a female member. PolyNovo is an Equal Opportunity Employer and actively encourages diversity in the workplace.

### Recommendation 1.6

The Board is responsible for reviewing its own performance. A review of Board performance is conducted by the Chairperson and Directors on an ongoing basis and through an annual self-assessment process. A Board evaluation process was conducted in September 2016. All Directors have access to continuing education and are provided with the information they need to discharge their responsibilities effectively. The Company Secretary plays an integral role in supporting the Board by monitoring Board policy and procedures, and co-ordinating meeting documentation.

### Recommendation 1.7

PolyNovo conducts a formal review of the Senior Executives of the Group on an annual basis. An evaluation process was conducted during the previous financial year. The Charter of the Remuneration Committee includes responsibility for the evaluation of the performance of Senior Management and Executives.

# Corporate Governance Statement continued

## Principle 2: Structure the Board to Add Value

### Recommendation 2.1

The Board performs the role of the Nominations Committee due to the small size of the Company. All Directors nominated are assessed by the Board to ensure that the most suitably qualified person is appointed, regardless of gender.

### Recommendation 2.2, Recommendation 2.3 and Recommendation 2.4

As at the date of this report, the Board of PolyNovo comprises six Directors:

- Mr David Williams – Non-executive Chairman (appointed as Non-executive Director on 28 February 2014 and Non-executive Chairman on 13 March 2014)
- Mr Bruce Rathie – Non-executive Director (appointed 18 February 2010)
- Dr David McQuillan – Non-executive Director (appointed 6 August 2012)
- Mr Max Johnston – Non-executive Director (appointed 13 May 2014)
- Mr Philip Powell – Non-executive Director (appointed 13 May 2014)
- Mr Leon Hoare – Non-executive Director (appointed 27 January 2016)

The Directors have a combination of commercial acumen and experience in the biotechnology industry and capital markets. The relevant qualifications and background of each Director are set out in the Directors' Report section of the Annual Report.

The Board has adopted the Council's recommended criteria for assessing Director independence. To be assessed as independent, a Director must fulfil a number of criteria as outlined in the ASX Corporate Governance Principles. As at the date of this report, all Directors are considered independent.

There have been no commercial agreements with the Directors of PolyNovo, and none of the Directors are a substantial holder of shares in the Company. As such, all Directors are considered independent as at 30 June 2017.

### Recommendation 2.5

The Chairman is considered to be independent as discussed above. The Chairman is Non-executive at the date of this report.

The role of the Chairman and Chief Executive Officer are not performed by the same person as at the date of this report.

### Recommendation 2.6

The Company Secretary issues induction material to each Director upon appointment.

PolyNovo has an induction process for each newly appointed Director whereby the Director has access to key Company personnel.

The Company provides the Board with access to independent professional advice at the Company's expense, unless the Board determines otherwise.

## Principle 3: Act Ethically and Responsibly

### Recommendation 3.1

PolyNovo distributes its Code of Conduct to all employees and Directors. The Code of Conduct documents the practices necessary to maintain confidence in the Company's integrity and these practices are in line with the Council's guidelines on good corporate governance.

The Code of Conduct requires all employees and Directors to:

- comply with the law;
- act honestly and with integrity;
- not place themselves in situations that result in a conflict of interest;
- use the Company's assets responsibly and in the best interests of the Company; and
- be responsible and accountable for their actions.

PolyNovo has agreed to indemnify its Directors against certain liabilities and to maintain Directors' and Officers' insurance coverage.

## Principle 4: Safeguard Integrity in Corporate Reporting

### Recommendation 4.1

Listed company's audit committees are recommended to have:

- at least three Directors;
- all members to be Non-executive Directors;
- the majority of members to be independent; and
- the committee to be chaired by a Director who is not the Chair of the Board.

Current membership of PolyNovo's Audit and Risk Committee meets these criteria, as the Committee comprises three Directors, who all are Non-executive Directors. The Board has determined, that while Mr Powell was a Joint Acting Managing Director for a period during the 2015 financial year, he should be considered independent.

The current members of the Audit and Risk Committee are:

- Mr Philip Powell – Chairman
- Mr Bruce Rathie
- Mr Max Johnston.

The members of the Audit and Risk Committee are financially literate and have substantial public company experience. Details of the qualifications of Audit and Risk Committee members are included in the Directors' Report section of the Annual Report. The Company's external auditor is invited to attend Audit and Risk Committee meetings as required. The Audit and Risk Committee met two times during the 2017 financial year. All meetings were attended by all committee members.

There is a formal Charter for the Audit and Risk Committee, which is available at [www.polyново.com.au/company](http://www.polyново.com.au/company).

### Recommendation 4.2

The Chief Executive Officer and Chief Financial Officer have given a declaration to the Board concerning the Company's annual Financial Report required under section 295A of the *Corporations Act 2001*.

### **Recommendation 4.3**

The PolyNovo external audit function is performed by EY. Representatives of EY attend the AGM each year and are available to answer shareholder questions regarding the audit.

## **Principle 5: Make Timely and Balanced Disclosure**

### **Recommendation 5.1**

PolyNovo's Market Disclosure Protocol reflects the recommendations by the Council regarding continuous disclosure.

PolyNovo's announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions. PolyNovo's Market Disclosure Policy is available at [www.polynovo.com.au/company](http://www.polynovo.com.au/company) in the corporate governance section.

The Company provides commentary in relation to its annual Financial Report and provides a full review of operations for the reporting period in its Annual Report as required by the ASX listing rules.

All ASX announcements are available at [www.asx.com.au](http://www.asx.com.au).

## **Principle 6: Respect the Rights of Shareholders**

### **Recommendation 6.1**

PolyNovo keeps investors informed of its corporate governance, financial performance and future prospects on its website.

Shareholders can access copies of ASX announcements, notices of meetings, annual reports and financial statements and investor presentations on the website.

The Company has encouraged shareholders to elect to receive communications electronically. This serves the best interests of shareholders by facilitating the delivery of shareholder communications by electronic means, thus reducing costs and protecting the environment. Shareholders are encouraged to ask questions or provide feedback to the Company by email, phone or fax as well as at the Company's Annual General Meeting. Contact details of Senior Executives are provided on ASX announcements and newsletters.

### **Recommendation 6.2**

Shareholders are invited to ask questions at the Company AGM. Contact details are made available on Company ASX announcements. All senior staff and Directors make themselves available to discuss Company affairs with shareholders.

### **Recommendation 6.3**

Given the size of the Company and related cost issues, PolyNovo does not provide an electronic broadcast of shareholder meetings.

Shareholders are encouraged to participate in meetings and are given an opportunity to ask questions of the Company and its auditor at the AGM.

### **Recommendation 6.4**

PolyNovo provides shareholders with the option to receive communications from the Company and the share registry electronically. PolyNovo communicates regularly with its shareholders using ASX announcements, the Company's website, the Annual Report and the AGM. Access to ASX announcements is available to shareholders by using links available on the Company's website.

Policies and procedures regarding the governance of the Company are available at [www.polynovo.com.au/company](http://www.polynovo.com.au/company) in the corporate governance section.

## **Principle 7: Recognise and Manage Risk**

### **Recommendation 7.1**

PolyNovo's Audit and Risk Committee oversees the process for identifying and managing material risks in accordance with the Group's Risk Management Policy.

A copy of the Risk Management Policy is available in the corporate governance section of the Company's website. Further details regarding the Committee, its membership and the number of meetings held during the financial year are set out in response to Recommendation 4.1.

Ultimate responsibility for risk oversight and risk management has been delegated to senior management.

### **Recommendation 7.2 and Recommendation 7.3**

PolyNovo has a formal Risk Management Policy and a risk register. This approach to risk management involves identifying, assessing and managing the risks that affect the business, while at the same time considering these risks in the context of the Group's values, objectives and strategies.

Risks are analysed and, where possible, reduced but it is not always possible to completely mitigate all the risks faced by a biotechnology company. Identified risk are assigned to functional owners within the business and formally reviewed within the Quality System meetings, held quarterly. The Board of Directors reviews reported risks at Board meetings, and reviews the risk management framework annually. The last review was carried out in August 2017.

PolyNovo does not have an internal audit function due to the size of the Company.

### **Recommendation 7.4**

PolyNovo does not have any material exposure to economic, environmental and social responsibility risks.

# Corporate Governance Statement continued

## Principle 8: Encourage Enhanced Performance

### Recommendation 8.1

Listed company's Remuneration and Nomination Committees are recommended to have:

- at least three Directors;
- the majority of members to be independent; and
- the committee to be chaired by an independent Director.

Current membership of PolyNovo's Remuneration and Nomination Committee consists of two Directors who are non-executive Directors. The Board has determined that two Directors is appropriate given the company's stage of development and acknowledges this is less than the ASX guidelines.

The current members of the Remuneration and Nomination Committee are:

- Mr David Williams – Chairman
- Mr Leon Hoare

Details of the qualifications of Remuneration and Nomination Committee members are included in the Directors' Report section of the Annual Report. The Remuneration and Nomination Committee met two times during the 2017 financial year. All meetings were attended by all committee members.

There is a formal Charter for the Remuneration and Nomination Committee, which is available at [www.polyново.com.au/company](http://www.polyново.com.au/company).

### Recommendation 8.2

The Board is responsible for determining, recommending and reviewing compensation arrangements for the Directors, the Chairman and Senior Executives consistent with ASX Principle 8.

A summary of the remuneration policy for Directors and Senior Executives is set out in the Remuneration Report section of the Annual Report. The Remuneration Report includes details of the remuneration of Directors and those Senior Executives of the Company and the Group who are designated key management personnel.

Non-executive Directors are paid fixed fees for their services in accordance with the fee pool approved by shareholders. Fees paid to Directors include all Board and Committee responsibilities. PolyNovo pays superannuation to Directors, but no other retirement benefits.

### Recommendation 8.3

PolyNovo Executives must not enter into any hedge arrangement in relation to any performance rights they may be granted or are otherwise entitled to under an incentive scheme or plan, prior to exercising those rights or once exercised.