

Corporate Governance Statement

Corporate governance

Responsibility for the Company's proper corporate governance rests with the Board. The Board is committed to implementing the highest standards of corporate governance, and its guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Tissue Therapies' shareholders with a view to building sustainable value for them, for employees and those with whom the Company has dealings – residents, suppliers and the general community.

The Company has complied with the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition, as amended at 30 June 2010). A more detailed assessment of Tissue Therapies' current corporate governance practice against the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition) is provided later in this section.

- Tissue Therapies' Corporate Governance Charter, Securities Trading Policy and Remuneration and Nomination Committee Charter can be viewed on the Company's website at www.tissuetherapies.com. The Company's Corporate Governance Charter includes the Board Charter, Code of Ethics, Rules of Committees and the Audit and Risk Management Committee Charter,

Scope of Responsibility of the Board

The Board's broad function is to:

- Chart strategy and set financial targets for the Company
- Monitor the implementation and execution of strategy and performance against financial targets
- Appoint and oversee the performance of executive management, and generally to take and fulfil an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board – consistent with its function as outlined above.

These areas include:

- Composition of the Board itself including the appointment and removal of Directors
- Oversight of the Company including its control and accountability systems
- Development, implementation and review of remuneration policy and practices
- Appointment and removal of senior management and the Company Secretary
- Reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance
- Monitoring senior management's performance and implementation of strategy, and approving and monitoring financial and other reporting and the operation of committees.

Composition of Board

The Board performs its role and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

- The Board comprises five Directors, four Non-Executive Directors and one Executive Director.
- Details of each Directors' skills and experience are set out in the Directors' Report
- Directors (except for the Chief Executive Officer) are subject to re-election by rotation at each Annual General Meeting as stipulated in the Corporations Act and the Company's constitution. There are no maximum terms for Non- Executive Director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.
- the Board considers that the four Non- Executive Directors are independent. In reaching this conclusion the Directors have considered the following:
 - The Chairman, Roger Clarke, is considered independent. Roger Clarke (including his associates) was previously a substantial shareholder of the Company and deemed not to be independent. Roger Clark ceased to be a substantial shareholder on 11 February 2010, as announced to ASX.
 - Melvyn Bridges, Cherrell Hirst and Iain Ross (appointed a Director on 25 May 2012) do not have any previous association with the Company or any other relationships that are relevant to their independence.
 - Gregory Baynton (resigned as a Director 12 June 2012) previously provided management services to the Company as managing director of Orbit Capital. Orbit Capital no longer provides management services to the Company and the Board is satisfied that the previous arrangement does not affect his independence.
 - Dr Steven Mercer is an Executive Director and CEO and is not considered independent

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- The Chairman of the Board, Roger Clarke, a Non-Executive Director, is independent. Mr Clarke chairs the Board in such a manner to facilitate the effective contribution of all Board members and management. This includes established meeting procedure, the timely despatch of detailed Board papers, and the timely issue of draft minutes. Directors with a potential conflict of interest in any matter exclude themselves from the discussion and any decision on the matter.
- The role of Chairman and Chief Executive Officer are exercised by different individuals providing for clear division of responsibility at the head of the Company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.
- The Board has established a Remuneration and Nomination Committee. The Remuneration and Nomination Committee Charter can be viewed on the Company's website at www.tissuetherapies.com
- The Corporate Governance Charter adopted by the Board requires individual performance review and evaluation to be conducted formally on an annual basis. External reviews and assessments of the Board's policies and procedures, and its effectiveness generally, may periodically be conducted by independent consultants. This possibility (which would involve professional scrutiny and benchmarking against developing best market practice) will be kept under review by the Board for possible future implementation. The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively.

Board Charter and Policy

The Board's Charter (which is kept under review and will be amended from time to time as the Board may consider appropriate) gives formal recognition to the matters outlined above. This Charter sets out various other matters that are important for effective corporate governance including the following:

- A detailed definition of 'independence'
- A framework for the identification of candidates for appointment to the Board and their selection
- A framework for individual performance review and evaluation
- Proper training to be made available to Directors both at the time of their appointment and on an ongoing basis
- Basic procedures for meetings of the Board and its committees – frequency, agenda, minutes and private discussion of management issues among non-executive Directors
- Ethical standards and values – formalised in a detailed code of ethics and values.
- Dealings in securities – formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates, and
- Communications with shareholders and the market.

These initiatives, together with the other matters provided for in the Board's charter, are designed to 'institutionalise' good corporate governance and, generally, to build a culture of best practice both in Tissue Therapies' own internal practices and in its dealings with others, including shareholders, suppliers and the general community.

Audit and Risk Management Committee

The purpose of this Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its members during the financial year have been the following Directors:

- Melvyn Bridges (Chairman)
- Gregory Baynton (resigned as a Director on 12 June 2012)
- Iain Ross (appointed a Director on 25 May 2012)
- Roger Clarke

Roger Clarke, Melvyn Bridges, Gregory Baynton and Iain Ross are considered independent.

The Committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among the matters for which the committee is responsible are the following:

- Board and committee structure to facilitate a proper review function by the Board
- Internal control framework including management information systems
- Corporate risk assessment and compliance with internal controls
- Internal audit function and management processes supporting external reporting

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- Review of financial statements and other financial information distributed externally
- Review of the effectiveness of the audit function
- Review of the performance and independence of the external auditors, including audit partner rotation
- Review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls
- Assessing the adequacy of external reporting for the needs of shareholders, and
- Monitoring compliance with the Company's code of ethics.

Meetings are held at least twice a year. The external auditors attend each of the committee's meetings.

Risk Management

The Board, together with the Audit and Risk Management Committee are responsible for ensuring that the Company's risk management systems are effective, and that:

- The principle strategic, operational and financial risks are identified
- Effective systems are in place to monitor and manage risk
- Reporting systems, internal controls and arrangements for monitoring compliance with legislation and regulations are adequate.

The Board acknowledges the Revised Supplementary Guidelines to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy, policies, internal compliance and internal control. The function is carried out by the Audit and Risk Management Committee and its findings are reported to, reviewed and discussed by the Board. The Company's Risk Management Policy can be viewed on the Company's website at www.tissuetherapies.com

Certifying Financial Reports

The Chief Executive Officer and Chief Financial Officer certify in respect of the half yearly and the full year financial results that the Company's financial reports present a true and fair view, in all material respects, of the financial position and performance of the Company and are in accordance with the Corporations Act. As part of this certification, they are required to confirm that the risk management and internal control systems, to the extent that they relate to financial reporting, are operating effectively in all material respects based on the risk management model adopted by the Company.

Best Practice Commitment

The following are a tangible demonstration of the Company's corporate governance commitment:

- **Independent professional advice:** With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by the Company.
- **Code of ethics and values:** The Company has developed and adopted a detailed Code of Ethics to guide Directors in the performance of their duties.
- **Code of conduct for transactions in securities:** The Company has developed and adopted a formal code to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.
- **Charter:** The Code of Ethics and the Securities Trading Policy (referred to above) both form part of the Company's Corporate Governance Charter which has been formally adopted and can be inspected on its website at www.tissuetherapies.com

Compliance with ASX Corporate Governance Guidelines and Best Practice Recommendations

The Board has assessed Tissue Therapies' current practice against the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition as amended at 30 June 2010) "the Principles" and outlines its assessment below:

- **Lay solid foundations for management and oversight:** The role of the Board and delegation to management have been formalised as described above. This will continue to be refined, in accordance with the Principles in light of practical experience gained in operating as a listed company. Tissue Therapies complies with the Principles in this area.
- **Structure the Board to add value:** The Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company. The Non- Executive Directors (Roger Clarke, Melvyn Bridges, Cherrell Hirst, Gregory Baynton (resigned 12 June 2012) and Iain Ross (appointed 25 May 2012)), are considered by the Board to be independent and comprise a

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majority of the Board. The Chairman of the Board, Roger Clarke, is considered independent. Tissue Therapies does comply with the Principles in this regard.

- **Promote ethical and responsible decision-making:** The Board has adopted a detailed code of ethics and a detailed code of conduct for transactions in securities. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities. The Board ensures that restrictions on dealings in securities are strictly enforced. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore comply with the Principles. In June 2012 the Board adopted a Group Diversity Policy to ensure that the Company continues to benefit from a workforce which is diverse in respect of gender, ethnicity and age by:
 - reviewing and determining, as frequently as required, a Diversity profile that meets the particular needs of Tissue Therapies, including identifying the skill, experience and expertise requirements set for the Board and senior management necessary to effectively oversee its business and achieve its corporate goals
 - through the Remuneration and Nomination Committee, seeking to ensure that the Diversity profile is a factor that is taken into account in the selection and appointment of qualified employees, senior management and Board candidates
 - implementing initiatives focused on skills development, such as executive mentoring programs or more targeted practices relating to career advancement including those that develop skills and experience that prepare employees, in particular women, for senior management or Board positions;
 - establishing an effective measurement and reporting framework to enable the achievement of the objectives of the Group Diversity Policy. The Company's Group Diversity Policy can be viewed on the Company's website at www.tissuetherapies.com
- **Safeguard integrity in financial reporting:** The Audit and Risk Management Committee (with its own charter) complies with the Guidelines. The Committee consists only of Non Executive Directors and Melvyn Bridges (its Chairman), Roger Clarke, Gregory Baynton (resigned 12 June 2012) and Iain Ross (appointed 25 May 2012) are considered independent. All members of the Committee are financially literate;
- **Make timely and balanced disclosure:** Current Tissue Therapies' practice on disclosure is consistent with the Guidelines. Policies and procedures for compliance with ASX Listing Rule disclosure requirements are included in the Company's Corporate Governance Charter. Compliance with the ASX Listing Rule Continuous Disclosure requirements is incorporated in the Company's Corporate Governance Charter and is a standing agenda item at each Board meeting.
- **Respect the rights of shareholders:** The Board recognises the importance of this principle and strives to communicate with shareholders both regularly and clearly – both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors attend the annual general meeting and are available to answer shareholders' questions. The Company's policies comply with the Principles in relation to the rights of shareholders.
- **Recognise and manage risk:** The Board, together with management, has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible, improved. The whole issue of risk management is formalised in the Company's Corporate Governance Charter (which complies with the Principles in relation to risk management) and is kept under regular review. Review takes place at both committee level (Audit and Risk Management Committee), with meetings at least two times each year, and at Board level.
- **Remunerate fairly and responsibly:** Tissues Therapies' current practices in this area are reviewed regularly. Remuneration of Directors and executives are fully disclosed in this annual report. A clear distinction is made between non-executive Directors and executives in terms of the structure of their remuneration. The Board has established a Remuneration and Nomination Committee. The Remuneration and Nomination Committee Charter can be viewed on the Company's website at www.tissuetherapies.com



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