



## **Covata Limited** **Corporate Governance Report**

The Board of Directors ('the Board') of Covata Limited ('the Company') is committed to achieving the highest standards of corporate governance. Subsequent to the Company's relisting on the ASX on 10 November 2014, the Board adopted a corporate governance framework comprising principles and policies that the Board considers fundamental to the Company's continued growth and success.

This framework is designed to promote responsible management and assists the Board to discharge its corporate governance responsibilities on behalf of the Company's shareholders.

Copies of the charters under which the Board and its Committees operate, the Company's policies and other relevant information referred to in this Statement are available on the Company's website at <https://covata.com/about/ir/>.

Covata Limited's Corporate Governance Statement, which was approved by the Board on 30 August 2016 and is current at that date, describes our corporate governance framework, policies and practices as at 30 June 2018. The Company has, where appropriate, followed the guidelines and recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) ('ASX Recommendations') from the date of relisting on 10 November 2014 to 30 June 2018. Where the Board has made the assessment that it is not appropriate to completely comply with the guidelines and recommendations, this assessment has been disclosed and an explanation provided.

### **Principle 1 – Lay solid foundations for management and oversight**

The Company has adopted a Board Charter with the express intention and purpose of seeking to implement good corporate governance practices and to achieve good governance outcomes.

The Board Charter sets out the specific responsibilities of the Board, requirements as to the Board's composition and manner of operation, as well as the roles and responsibilities of the Senior Management of the Company.

The Board is ultimately responsible for the overall management and corporate governance of the Company. The Board responsibilities include:

- the development, implementation and alteration of the strategic direction of the Company, including future expansion of the Company's business activities,
- the appointment, and where appropriate, the removal of the Chief Executive Officer ('CEO'), the Chief Financial Officer ('CFO'), executive directors, and company secretaries,
- monitoring and evaluating the performance of the CEO in achieving the strategies and budgets set by the Board and establishing targets and goals for senior management to achieve and monitoring the performance of senior management,
- review and oversight of compliance with ASX Listing Rules, financial reporting obligations, including yearly and continuous disclosure, legal compliance and related corporate governance matters,
- risk management, assessment and monitoring, and
- monitoring and reviewing the operational performance of the Company including the viability of current and prospective operations and opportunities.



## **Principle 1 – Lay solid foundations for management and oversight (continued)**

The Company's Board Charter has detailed guidelines for the appointment and selection of the Board which requires the undertaking of appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a director. All material information relevant to a decision on whether or not to elect or re-elect a Director will be provided to shareholders in a Notice of Meeting pursuant to which resolutions to elect or re-elect a Director will be voted on.

All incoming Directors and senior executives will have written agreements with the Company which set out the terms of their appointment.

The Company Secretary supports the proper functioning of the Board. The Chairperson liaises with the Company Secretary on matters of corporate governance and conveys all information to the Board.

The responsibility for the operation and administration of the Company is delegated by the Board to the CEO and the Executive Management Team. The Board ensures that both the CEO and the Executive Management Team are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to monitor and assess their performance.

The Company is committed to the periodic review of the performance of its Board, individual directors and senior executives. This process is expected to typically be conducted by the Board or by special purpose committees established by the Board.

### ***Diversity***

The Company has adopted policies on diversity which are contained in the Board Charter and in the Company's Diversity Policy. The Company is committed to providing a diversity inclusive workplace in which all employees regardless of gender, age, ethnicity, religious or cultural background, marital status and sexual orientation have the opportunity to participate fully and are valued for their individual skills, experience and perspectives.

The Company believes that the promotion of diversity within the organisation generally enlarges the pool for recruitment of high quality employees, is likely to encourage employee retention, and is likely to encourage greater innovation through the inclusion of different perspectives.

Whilst the Company's policies on diversity provide a framework for the Company to achieve a list of measurable objectives that encompass gender equality, it does not propose to establish measurable gender diversity objectives in the foreseeable future as the Company is strongly committed to making all selection decisions on the basis of merit and the setting of specific objectives for the quantum of males/females at any level would potentially influence decision making to the detriment of the business. In accordance with the diversity policy the Board will, however, aim to increase the proportion of women on the Board and in senior management roles as vacancies and circumstances allow.

The Company's diversity policies provide for the monitoring and evaluation of the scope and currency of the diversity policies.

The Company's policies on diversity are contained in the Diversity Policy which is available on the Company's website.



## **Principle 2 – Structure the board to add value**

### ***Composition of the Board***

Full details as to each directors' date of appointment and relevant skills and experience are set out in the Directors' Report.

It is the objective of the Company to establish and maintain a Board with a broad representation of skills, experience and expertise. At this stage, it is not practical for the Company to establish a Nomination Committee, however, where it is proposed that a new Director is to be appointed to fill a casual vacancy or to be put forward to security holders as a candidate for election as a new Director of the Company, the Board will review and assess candidate Directors against criteria which include overall skills, experience and background, and professional skills. Any new appointments to the Board will go through an induction program which will involve the provision of corporate governance policies to the incoming director and a process of introduction to the remaining members of the Board and (where appropriate) other key staff.

The Board Charter provides for the disclosure of the names of Directors considered by the Board to be independent. The names of the members of the Board as at the date of this report are as follows:

- Mr. William McCluggage (Chairman) – Non-Executive Director
- Mr. Edward (Ted) Pretty – Managing Director and Chief Executive Officer
- Mr. Lindsay Tanner – Non-Executive Director
- Mr. David Irvine – Non-Executive Director

The Board will consider a Director to be independent if in accordance with the principles and recommendations, the director is free of any interest, relationship or association that may materially influence, or may reasonably be perceived to materially influence, the director's capacity to exercise their independent judgment on issues before the Board, and to act in the best interests of the Company and its shareholders. The criteria for determining independence include that the director:

- is not a member of senior management of the Company,
- is not a substantial security holder of the Company, or an officer of, or otherwise directly associated with a substantial security holder of the Company,
- is not or has not been employed in an executive capacity by the Company within the last three years and did not become a director within three years of being so employed,
- within the last three years, has not been a senior employee, partner or director of material professional services to the Company,
- within the last three years, has not been in a material business relationship with the Company,
- is not a party to a material contractual relationship with the Company, and
- is free of any conflict of interest which may materially interfere with that Director's motivation to act in the best interests of the Company.

Mr. William McCluggage, Mr. Lindsay Tanner and Mr. David Irvine are Non-Executive Directors of the Company and are independent on the basis that they, or entities that they have an involvement in, do not hold a substantial number of equity securities in the Company. The directors consider that the current structure of the Board is appropriate as each Director brings specific and targeted business skills.

The Board Charter requires Directors to disclose their interest, positions, associations and relationships and requires that the independence of Directors is regularly assessed by the Board in light of the interests disclosed by Directors. Details of the Directors interests, positions, associations and relationships are provided in this Annual Financial Report.

## **Principle 2 – Structure the board to add value (continued)**

The Board currently holds a wide matrix of experience and skills including extensive experience across industries and sectors which are considered to be of particular relevance and importance to the Company's business including experience and involvement in the development and commercialisation of technology companies, knowledge of capital markets, experience in the legal and security industries and experience in national security organisations. The Board will monitor and review the collective mix of skills, experience and expertise of its members to seek to identify any gaps that should be addressed having regard for the nature and development of the Company's business.

Directors will be offered regular opportunities for professional development by the Company where relevant to their position as Directors of the Company and their role as Board members.

### ***Role of the Chairperson***

The Board Charter provides that the Chairperson should not be the Chief Executive Officer and that their responsibilities as set out in the Board Charter include:

- the organisation and efficient conduct of the business of the Board at Board meetings and on all other occasions,
- ensuring all Directors are adequately informed about Board matters in a timely fashion to facilitate rigorous and accurate decision making in all business of the Board,
- setting the agenda for meetings of the Board, guiding the meetings to facilitate open discussion and managing the conduct of, and frequency and length of such meetings, in order to provide the Board with an opportunity to arrive at a detailed understanding of the Company's performance, financial position, operations and challenges,
- liaising with the Company Secretary concerning matters of corporate governance and conveying all information to the Board, and
- encouraging engagement and compliance by Board members with their duties as Directors.

## **Principle 3 – Promote ethical and responsible decision making**

### ***Directors' Code of Conduct***

The Company recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. The Company's reputation as an ethical business organisation is important to its ongoing success and it expects all its officers and employees to be familiar and have a personal commitment to meeting these standards.

Directors, Managers and employees who suspect that any fraudulent or unethical behaviour has occurred, should contact the Chairperson, Chief Executive Officer or Company Secretary. All communications received by a Director are to be treated with the strictest confidence.

The Company's Directors' Code of Conduct is available on the Company's website and forms part of the Corporate Governance Charter.



## **Principle 3 – Promote ethical and responsible decision making (continued)**

### ***Securities Trading Policy***

The Company has established a Securities Trading Policy which governs trading in the Company's securities and applies to all Directors, Officers and employees of the Company. A copy of the policy is available on the Company's website under Investor Relations.

Under this Securities Trading Policy, the Company's Directors, other officers, senior management or employees, as well as any entity that they control, must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Additionally, they are prohibited from trading each period of 30 days immediately prior to the intended date for the Company's release of quarterly, half-yearly and annual financial reports to the ASX until 24 hours immediately after the date of release as well as each period of 24 hours immediately after the date upon which the Company issues a price-sensitive ASX announcement.

No director, officer or employee may deal in the Company's securities at any time for short-term gain, including by buying and selling the Company's securities in a three month period, without the written approval of the Chairman or, in the case of the Chairman, the Chief Executive Officer.

In order to ensure compliance with this Policy, all directors, other officers, senior management and employees must discuss any proposed dealing with (and obtain written approval from) the Secretary or a director prior to trading the Company's securities at any time.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

## **Principle 4 – Safeguard integrity in corporate reporting**

### ***Audit and Risk Committee***

At this stage, it is not practical for the Company to establish an Audit and Risk Committee due to the nature of the Company's current and proposed business structure, financial capacity and objectives.

Until such time as the Committee is established the Board will undertake the functions of the Committee, giving effect to the Audit and Risk Committee Charter, with adaptations as necessary and appropriate which will include reviewing the performance and effectiveness of the external auditors and internal review procedures and the rotation of the external audit engagement partners.

The Company's Audit and Risk Management Charter form part of the Corporate Governance Charter and is available on the Company website.

Before the Board approves the entity's financial statements for a financial year, the CEO and CFO (or such appropriate person) declared that in their opinion the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity.

The Company will make arrangements for its external auditor to attend its AGM (as required by the Corporations Act) to answer questions from shareholders relevant to the audit.



## **Principle 5 – Make timely and balanced disclosure**

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and Corporations Act 2001. Subject to some limited exceptions, under the continuous disclosure requirements, the Company must immediately notify the market, through the ASX, of any information which a reasonable person would expect to have a material effect on the price or value of the Company's shares. To achieve these objectives and satisfy the regulatory requirements, the Board has adopted a Communication and Disclosure Policy. A copy of the policy is available on the Company's website.

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company, and to facilitating trading on an informed basis. The Company will not disclose price-sensitive information in any forum unless it has been previously disclosed to the ASX. Any price-sensitive information for public announcement shall be lodged with ASX as soon as practicable and prior to external disclosure elsewhere.

The Company's communications shall:

- be factual, and shall not omit material information,
- be subject to internal review and authorisation before issue,
- be expressed in a clear and precise manner, and
- be timely.

The Company is committed to communicating effectively with its shareholders and providing shareholders with timely access to balanced information concerning the Company. The Company has appointed joint company secretaries as the persons responsible for communications with the ASX in relation to listing rule matters and also for ensuring compliance with the Communication and Disclosure Policy.

## **Principle 6 – Respect the rights of shareholders**

Information about the Company and its governance is available in the Board Charter and corporate governance policies which can be found on the Company's website.

The Company has adopted shareholder communications policies in its Communication and Disclosure Policy which aim to promote and facilitate effective two-way communication with investors. The policies outline a range of ways in which information is communicated to shareholders.

The Company aims to promote effective communication with shareholders through:

- the Annual Financial Report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The Annual Financial Report can be accessed either through the ASX website or the Company's website.
- the half year and full year financial results are announced to the ASX and are available to shareholders via the Company's website and ASX website.
- all announcements made to the market and related information (including presentations to investors and information provided to analysts or the media during briefings), are made available to all shareholders under the investor information section of the Company's website after they have been released to the ASX.
- detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting.
- all shareholders have the opportunity to elect to receive communications by email.
- shareholding and dividend payment details are available through the Group's share register, Boardroom Pty Limited.



## **Principle 6 – Respect the rights of shareholders (continued)**

In commitment to Shareholder communication, the Company provides business updates on a quarterly basis, which inform Shareholders of the Company's strategic direction and financial performance.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution

## **Principle 7 – Recognise and manage risk**

### ***Risk oversight and management***

The Board is charged with the responsibility of determining the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies.

Whilst the Company does not have an Audit and Risk Committee, it will follow the audit and risk management policies where possible and is confident that this will independently verify and safeguard the integrity of its financial reports. A copy of the audit and risk policies forms part of the Company's Audit and Risk Committee Charter and is available on the Company's website.

As the Company does not have an Audit and Risk Committee at this stage, it does not have an internal audit function either. However, the Company it will follow the audit and risk management policies set out in its Corporate Governance Charter and is confident that this will independently verify and safeguard the integrity of its financial reports.

The audit and risk management policies set out in the Corporate Governance Charter detail the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (if appropriate). The Board and Management are continually evaluating and monitoring the Company's risk management framework, although no formal review of risk management framework was conducted during 2017. The Company does not consider it has any material exposure to environmental or social sustainability risk, however is subject to economic risks including currency risks (refer to note 24(B) of the consolidated financial statements on pages 73 and 74.

## **Principle 8 – Remunerate fairly and responsibly**

Whilst the Company does not have a remuneration committee, it will follow the remuneration policies set out in its Board Charter where possible and is confident that this process will ensure that the remuneration for Directors and senior executives is fair and reasonable.

Details of the Company's remuneration framework are set out in the Remuneration Report, contained within the directors' report. Details of the remuneration of non-executive directors, executive directors and other KMP can be found in the directors' report under the 'Remuneration Report' section, which has been audited.



## **Principle 8 – Remunerate fairly and responsibly (continued)**

As detailed under Principle 3, the Company has a Securities Trading Policy which governs the trading in the Company's securities and applies to all Directors, Officers and employees of the Company. The Company's Securities Trading Policy does not specifically prohibit participants in the Company's equity-based remuneration schemes from entering into transactions which limit the economic risk of participating in the Company's equity-based scheme, however, the broader policies within the Securities Trading Policy which limit the trading in the Company's securities for short-term gain, together with the limited availability of derivative securities to hedge the economic risk due to the size of the Company, are considered sufficient to meet the objectives of this principle at this stage.