



CORPORATE GOVERNANCE STATEMENT



- > SLEEP DIAGNOSTICS & TREATMENT
- > NEURO DIAGNOSTICS
- > BRAIN RESEARCH
- > ULTRASONIC BLOOD FLOW MONITORING
- > MEDICAL INNOVATIONS

Corporate Governance Statement

Compumedics Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day-to-day management of the Group's affairs, and the implementation of the corporate strategy and policy initiatives, are formally delegated by the Board, to the Chief Executive Officer and the senior executives. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Board of directors

The Board operates in accordance with the broad principles of the Board charter. The charter details the Board's composition and responsibilities.

Board composition

The charter states:

- the Board is to be comprised of both executive and non-executive directors with a majority of non-executive directors preferable where possible. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- the Board recognises the underlying principle of independent directors but believes at this point in time the current directors, despite not being independent, bring a level of skill and experience to the Board combined with an intimate knowledge of the business that might otherwise not be available to it
- the Chairman is elected by the full Board
- the Group is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - compliance with the Company's Code of Conduct
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments

- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office are set out in the directors' report under the heading "Information on directors". There is one non-executive director, who is deemed independent under the principles set out below, and two executive directors at the date of signing the director's report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence

The Board is in the process of adopting specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
 - within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative factors. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The Board currently acknowledges that having a combined Chairman and CEO (Executive Chairman) is not in keeping with current thinking on good corporate governance. However, considering the skills and experience of the current Executive Chairman and the needs of the Company at this point in time in its development, the Board considers the current arrangement to be in the best interest of the Company and its shareholders.

At the date of this report Alan Anderson, a director of the Company, is considered independent according to the governance provisions laid down by the Australian Securities Exchange.

Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, subject to the following limitations:

- no non-executive director may serve more than four terms (twelve years), and

- on attaining the age of 70 years a director will retire, by agreement, at the next AGM and will not seek re election, unless requested by the Board to do so.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

At this point in time the same individual, Mr. David Burton, carries out these roles. Mr. Burton is also founder and the majority shareholder of Compumedics.

Commitment

The Board held 8 Board meetings.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director is disclosed in the Company's Annual Report each year.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2017.

The commitments of non-executive directors are considered prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Entities connected with Mr Alan Anderson had business dealings with the consolidated entity during the year, as described in note 24 to the financial statements. In accordance with the Board charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Chairman, with the participation of the Board members, undertakes a semi-annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The last assessment was undertaken during the period ended June 2016.

Corporate reporting

The CEO and CFO have made the following certifications to the Board:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration and audit committees. The audit committee and remuneration committees are chaired by a non-executive director. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee is developing its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate, commensurate with the current size of the Company and the main Board of Directors for the Company.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees currently being developed.

Due to the size of the Company a nomination committee has not been established at this time.

Remuneration committee

The remuneration committee consists of the following non-executive director:

A Anderson (Chairman)
and the following executive directors:
D Burton
D Lawson

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report in the Company's annual report each year.

The remuneration committee operates in accordance with its draft charter. The remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular briefings from an external remuneration expert on recent developments on remuneration and related matters.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report" and note 24 to the financial statements, in the Company's annual report each year.

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit committee

The audit committee consists of the following non-executive director:

A Anderson (Chairman)
and the following executive directors: D Burton and D Lawson

Details of the director's qualifications and attendance at audit committee meetings are set out in the directors' report in the Company's annual report each year.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee operates in accordance with a charter that is being developed. The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and the external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews the processes the CEO and CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Nexia Melbourne Audit Pty Ltd (Formerly Hayes Knight Audit Pty Ltd) were appointed as the external auditors at the annual general meeting in October 2013.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 25 to the financial statements in the Company's annual report each year. The external auditors provide an annual declaration of their independence to the Board.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk assessment and management

The Board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

Code of Conduct

The Company is developing a statement of values and a Code of Conduct (the Code), which has been fully endorsed by the Board and applies to all directors and employees. The Code will be regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

The purchase and sale of Company securities by directors and employees is only permitted during the thirty-day period following the release of the half-yearly, the preliminary annual financial results to the market and the Annual Report to market. Any transactions undertaken must be notified to the Company Secretary in advance.

The Code and the Company trading policy is discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company's trading policy to report these through the Chief Financial Officer or the Chief Executive Officer.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

Continuous disclosure and shareholder communication

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's web-site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the Company's annual and regular investor newsletter.

Diversity policy

The Corporate Governance Principles and Recommendations include that a Company has a formal diversity Policy. The Company will, during the next reporting period, establish and implement a diversity policy, which will include, but not be limited to, gender, age, ethnicity and

cultural background of the Board and Key Management Personnel. The Company will set measurable objects to measure the achievement of the diversity policy, and introduce procedures to ensure its proper implementation. An internal review will be conducted annually to assess the effective of the policy and its implementation procedures.

Share Trading Policy

The Company has issued a share trading policy, which was lodged with the ASX in December of 2010. The intent of this share trading policy is to preserve the reputation and integrity of Compumedics so as to ensure when people associated with Compumedics deal in securities of the Company those dealings are not only fair but are seen to be fair.

As such the general scheme of the share trading policy regarding allowable dealings by employees and Directors in Compumedics securities is that person should:

- 1 never engage in short-term trading of Compumedics securities
- 2 not deal in Compumedics securities while in possession of price sensitive information
- 3 notify the Company Secretary of any material intended transactions involving the Company's securities; and
- 4 restrict their buying and selling of Compumedics securities to within the specified "trading window".



Defining *Life's* Signals



www.compumedics.com