

# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

Electro Optic Systems Holdings Limited and its Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review its corporate governance 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.

Reference is made to the revised Corporate Governance Principles and Recommendations issued and revised from time to time by the ASX Corporate Governance Council. The Board believes that all concepts of the revised Principles and Recommendations have been satisfied, however the Board is realistic with respect to the relative size and nature of the Company and have implemented the Recommendations accordingly. The Company endeavours to ensure exceptions to the guidelines do not have negative impact on the best interests of shareholders.

While in most respects the Company complies with the Recommendations, it is recognised that the development and implementation of policies and practices is an ongoing process that evolves with the needs of the business and its stakeholders.

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

The following Corporate Governance documents had been adopted by the Board:

- The Company’s Constitution;
- Audit Committee Charter;
- Remuneration Committee Charter;
- Diversity Policy;
- Code of Conduct;
- Safety and wellness
- Quality; and
- Securities Trading Policy.

## ASX PRINCIPLES AND RECOMMENDATIONS

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

The relationship between the Board and Management is critical to the Group’s success. The Directors are responsible to the shareholders for the performance of the Group in both the short and longer terms 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.

#### **1.1 Responsibilities of the Board**

The responsibilities of the Board include:

- providing strategic guidance to the Group, including contributing to the development of and approving the Group’s corporate strategy;
- previewing 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; and
- progress of major capital expenditures and other significant projects, including any acquisitions or divestments; monitoring the Group's financial performance, including approval of the annual and half-year financial reports and regular liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the Senior Leadership Team;
- ensuring there are effective management processes in place for 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; and
- ensuring appropriate resources are available to senior Management to enable them to implement the strategies approved by the Board.

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 as set out in the Group's delegations policies. These delegations are reviewed by the Board from time to time.

### **1.2 New director appointments and elections**

Before appointing a director or putting forward a candidate to shareholders for election, the Board will undertake appropriate background checks. The commitments of Non-executive Directors are considered prior to their appointment to the Board and are reviewed regularly. 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.

The Board will also provide all material information which is relevant to whether or not a person should be elected or re-elected to shareholders (including information relating to independence and a recommendation regarding support or otherwise to the candidate's appointment or election).

When a need to appoint a new Director is to be considered, the Board considers the range and breadth of skills, experience and expertise on the Board, and compares that to future needs. From this, a short-list of candidates with appropriate skills and experience gets considered.

A number of channels are used to source candidates to ensure the Company benefits from a diverse range of individuals in the selection process. Where necessary, advice is sought from independent search consultants.

The full Board then appoints the most suitable candidate who must stand for election at the Company's next AGM. The nomination of existing Directors for reappointment is not automatic and is partly contingent on their past performance, contribution to the effective operation of the Board and the current and future needs of both the Board and Company. The Board is aware of the advantages of Board renewal and succession planning.

Notices of meetings for the election of Directors comply with the ASX Corporate Governance Council's best practice recommendations.

### **1.3 Written agreements with Directors and Senior Executives**

New Directors receive a letter of appointment, which outlines the Company's expectations in relation to participation, time commitments and compliance with policies and regulatory requirements. As with all

employees, senior executives are required to sign employment agreements setting out the key terms of employment.

Non-executive Directors are expected to spend adequate time preparing for and attending Board and Sub-Committee meetings and associated activities. The number of meetings of the Company’s Board of Directors and of each Board Sub-Committee held are disclosed in each Annual Report.

The commitments of all Non-executive Directors are considered by the Board prior to the Director’s appointment to the Board 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.

**1.4 Company Secretary**

The Company Secretary is accountable directly to the Board, through the Chair, on all matters related to the proper functioning of the Board.

**1.5 Diversity Policy**

The Company values diversity and recognises the benefits it can bring to the organisation’s ability to achieve its goals. Accordingly, the Company has developed and introduced a diversity policy which outlines its diversity objectives in relation to gender, age, cultural background, ethnicity and other factors. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company’s progress made in achieving them.

In accordance with the Company’s Diversity Policy and ASX Corporate Governance principles, the Board has established various objectives in relation to gender diversity. The aim is to achieve these objectives over the coming years as relevant positions become vacant and appropriately-skilled candidates are available.

- Overall and Management – equal representation, however the “best fit” of a person is of much more importance
- Board – at least one female director

The Company is aware of the benefits of diversity, not only from gender but from a wide range of different backgrounds, cultures, experiences, ethnicity, etc. to leverage the widest possible pool of available talent.

As at the most recent year end reporting date, being 31 December 2015, the Group’s gender diversity mix is:

	Female	Male
Total staff	18%	82%
Senior Management	20%	80%
Board	0%	100%

Senior management is defined as a manager who has a relatively high leadership role in the day-to-day responsibilities of managing the Company.

It is noted that the Company currently has a moderate level of both gender and general diversity, however

given the relatively small number of total employees, a change of one or few employees may have a significant impact on the measurable diversity objectives.

### **1.6 Board, committee and director performance**

The performance of the Board, its Chair and its committees is considered each year by the full Board in an open format. This process is led by the Chair, may be formal or informal and was last done for the 2015 financial year.

The assessment also considers the adequacy of the Company's induction and continuing education processes, access to information and the support provided by the Company Secretary.

Members of the executive may be invited to contribute to this appraisal process.

### **1.7 Senior executive performance**

The appraisal of senior executives is an ongoing process throughout the year with an annual appraisal considered by the Chief Executive Officer(CEO)/ Remuneration Committee during the annual remuneration review, the latter last taking place at the end of the most recent financial year.

### **Principle 2: Structure the Board to add value**

The Board operates in accordance with the broad principles set out in its Charter which provides details of the Board's composition and responsibilities.

#### **Conflict of interests**

In accordance with good governance practices, all Directors are required to declare all interests in dealings with the Company and are required to take no part in decisions relating to them. In addition, those Directors are not entitled to receive any papers from the Group pertaining to those dealings. No declarations were received from any Directors during the most recent financial year.

#### **Independent professional advice**

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

#### **Board Sub-Committees**

The Board has established Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The current Committees of the Board are the Audit and Remuneration Committees. The Audit Committee and the Remuneration Committee are comprised entirely of Non-executive Directors.

Due to limitations imposed by the small size of the Company, the company does not comply with Recommendation 2.1(a) in having a Nomination Committee. The entire Board is responsible for this function. The Board proposes to maintain the current directors until the size of the activities of the Company warrant further changes.

The Committee structure and membership is reviewed on an annual basis.

Each Committee has its own written Charter setting out its role and responsibilities and that of its members, its composition, structure, membership requirements and the manner in which the Committee is to operate. Both of these Charters are reviewed on an annual basis and are available on the Company's website. All matters determined by the Committees are submitted to the full Board as recommendations

for Board decisions.

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.

## **2.1 Remuneration committee**

The members of the Remuneration Committee are Peter Leahy (Chairman), Fred Bart and Ian Dennis.

## **2.2 Board skills matrix**

Given the nature and size of the Company, the Board has yet to utilise a formal Board skills matrix. This to-date informal process will be re-evaluated as the Company grows.

## **2.3 Board composition and independence**

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Annual Report is included in the Directors' Report on page 6 and 7. Directors of Electro Optic Systems Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5 percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 percent of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Electro Optic Systems Holdings Limited are considered to be independent:

Name	Position
Mr. Ian Dennis	Non-executive Director
Mr Peter Leahy	Non-executive Director
Mr Kevin Scully	Non-executive Director
Mr Mark Ureda	Non-executive Director

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

The Company's Constitution specifies that all Non-executive Directors must retire from office no later than the third Annual General Meeting ("AGM") following his or her last election. Where eligible, a Director may stand for re- election.

## **2.4 Independent Directors**

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in each Annual Report and on the Company website. The Board comprises a majority of independent directors.

## **2.5 Chair and Chief Executive Officer (“CEO”)**

The Chair is responsible for leading the Board, ensuring that 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 Leadership Team. In accepting the position, the Chair acknowledges that it will require a significant time commitment and confirms that other positions will not hinder his or her effective performance in that role.

The Chairman, Mr Fred Bart is not an independent Chairman as recommended by Recommendation 2.5. The Board proposes to maintain the current directors until the size of the activities of the Company warrant further changes.

The CEO is responsible for implementing Group strategies and policies.

## **2.6 Induction**

The induction provided to new Directors enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company’s financial position, strategies, operations, culture, values and risk management policies. The induction ensures new Directors understand the respective rights, duties, responsibilities, interaction and roles of the Board and the Senior Leadership Team and the Company’s meeting arrangements.

## **Principle 3: Act ethically and responsibly**

### **3.1 Code of conduct**

The Company meets Recommendation 3.1 of the Guidelines as the Company has a formal code of conduct.

All Directors and employees 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 governed by the Securities Trading Policy available on the web site and includes closed periods. Any transactions undertaken by Directors outside of these closed periods must be notified to the Chairman in advance.

## **Principle 4: Safeguard integrity in financial reporting**

### **4.1 Audit Committee**

The Audit Committee operates in accordance with a Charter dated 29 April 2005 and all members must be financially literate and have an appropriate understanding of the industry in which the Group operates.

As at the most recent year end reporting date, being 31 December 2015, the Audit Committee consisted of Mr Peter Leahy (Chair of the Committee), Mr Ian Dennis and Mr Kevin Scully all of whom are considered independent.

The main responsibilities of the Audit Committee are to:

- review, assess and approve the annual reports, the half-year financial reports 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; and
- compliance with applicable laws and regulations;
- oversee the effective operation of the Company’s 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 their 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 Group’s external auditors and ensure that it does not adversely impact on the auditors’ independence;
- review and monitor all related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Audit Committee’s role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management and the Company’s external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary, and may hold in-camera discussions with the external auditors without the presence of management;
- reviews the processes the CEO and Chief Financial Officer (CFO) have in place to support their annual certifications to the Board;
- reviews any significant disagreements between the auditors and Management, irrespective of whether they have been resolved; and
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit Committee or, if necessary, the Chair 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.

#### **4.2 CEO/ CFO declarations**

Before the Audit Committee recommends, and the Board approves, the Company’s financial statements for the half year or full year, the CEO and CFO are required to provide a declaration that, in their opinion, the financial records of the Group 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 and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. Such a declaration has been provided in respect of the 2015 full year financial statements. Ian Dennis, the company secretary, is responsible for the CFO function of the group.

#### **4.3 External auditors**

The Company policy is to appoint external auditors who clearly demonstrate quality of service and independence.

The performance of the external auditor is reviewed annually. Deloitte Touche Tohmatsu (“Deloitte”) was appointed as the external auditor in 2002. It is Deloitte’s policy to rotate audit lead engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in each Annual Report both in the Directors’ Reports and in the notes to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee which is reproduced in the Company’s Annual Report.

The external auditor attends the Company’s AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

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

The Company is committed to disseminating information to shareholders in a fair, timely and cost efficient manner to ensure compliance with the ASX Listing Rules to facilitate effective communication with shareholders. Due to the limitations imposed by size the Board has not established written policies and procedures.

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

### **6.1 Website information**

The Company provides ready access to its shareholders and members of the public to information about the Company and its governance on its website [www.eos-aus.com](http://www.eos-aus.com) which is regularly updated with latest information. Price sensitive information is only loaded to the website after it is duly released to the ASX.

### **6.2 Investor relations program**

The Company Secretary has been nominated as the person responsible for communications with the 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 website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, any new or refreshed material used in the presentation is released to the ASX and posted on the Company's website. 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.

### **6.3 Participation at meetings**

To engage with shareholders and to encourage participation at meetings, the Board provides information to shareholders and the market in several ways:

- Directly releasing announcements with copies of these announcements immediately placed in the announcements section of the website.
- The Annual General Meeting (AGM) provides an opportunity for the shareholders to communicate with the Board through presentations on the Company's businesses and current trading. Shareholders are encouraged to attend the AGM and to use the opportunity to ask questions on any matter.
- The CEO regularly meets major investors to understand their issues and concerns. No new material price sensitive information is provided at such meetings. Other Non-executive Directors or the CFO may attend such meetings if requested. The CEO reports to the Board on the matters discussed at meetings with major investors.

### **6.4 Electronic communication with the Company and its share registry**

The Company's website also enables users to provide feedback and has an option for shareholders to register their email address for direct email updates on Company matters.

All shareholders are entitled to receive a hard copy of the Company's Annual Reports which are also available for download on its website.



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

### **7.1 Risk committee**

Given the nature and size of the Company's operations, the Board has decided against the use of a separate risk committee.

The Board is responsible for ensuring that risks and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with those risks and opportunities. The Board believes that it is important for all Directors to be a part of this process and the Board takes ultimate responsibility for the recognition and management of risk.

Oversight of the compliance and control mechanisms for risk management has been delegated to the Audit Committee through its Charter.

### **7.2 Risk management**

The Company takes a proactive approach to risk management which is managed by the senior executives under guidance provided by the Board and the Audit Committee.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control.

The Board is to ensure that there are adequate policies in relation to risk management, compliance and internal control systems. Through the Audit Committee, they monitor the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks. In providing this oversight, the Committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for auditing and evaluating the Company's risk management system; reviews Company-wide objectives in the context of the above-mentioned categories of corporate risk;
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk;
- reviews and recommends the delegations of financial authorities and addresses any need to update these authorities on an annual basis; and
- reviews compliance with agreed policies.

The Committee recommends any actions it deems appropriate to the Board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Audit Committee on the effectiveness of:

- the risk management and internal control system during the year; and
- the Company's management of its material business risks.

### **7.3 Internal audit**

Given the size of the Company, there is no separate internal audit function. Risk assessments are carried out as required with risk mitigation strategies utilised to minimise the chance of the risks occurring and to

ameliorate any negative impact.

The Company furthermore engages an independent professional service provider to carry out an annual review of the Company's internal controls on a targeted basis where risks are identified or additional assurance of controls is desirable. The results of the review are reported directly to the Audit Committee.

#### **7.4 Sustainability risks and management**

The Directors and management have considered whether the Company has any material exposure to economic, environmental and social sustainability risks and determined that whilst the Company is in a development phase that no material exposure exists. In addition to the risk assessment and management strategies previously outlined, as required the Company utilises a number of risk mitigation strategies including employing appropriately qualified staff, using external advisors, holding appropriate insurance, etc.

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

##### **8.1 Remuneration committee**

The Board has established a Remuneration Committee which is structured so that the Committee is chaired by a Non-executive Director and consists of at least three members.

Mr Peter Leahy was appointed Chairman of the Nomination and Remuneration Committee and is an independent director. The other members of the committee are Mr Ian Dennis and Mr Fred Bart.

The remuneration policy, which sets the remuneration terms and conditions for the CEO and other senior executives, is developed by the Remuneration Committee and approved by the Board. Although a member of the Remuneration Committee, the CEO is not involved in the determination of his or her own remuneration.

The Remuneration Committee is empowered to investigate any matter brought to its attention and has direct access to any employee or any independent experts and advisors as it considers appropriate in order to ensure that its responsibilities can be carried out effectively.

##### **8.2 Non-executive and executive remuneration**

Each employee 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. Job descriptions are reviewed by the CEO on a regular basis and, where necessary, is revised in consultation with the relevant employee and the Board.

Information on Directors' and Executives' remuneration, including principles used to determine remuneration, is disclosed regularly via Annual Reports under the section "Remuneration Report".

Senior management may receive a mix of fixed and variable pay, comprising both cash and equity incentives. Non-executive Directors receive fees and statutory superannuation only. Ian Dennis receives additional consulting fees for his role as company secretary. Non-executive Directors do not receive bonus payments or equity incentives.

##### **8.3 Prohibition on hedging of unvested/restricted entitlements**

In accordance with Company policy, participants in equity-based remuneration plans are not permitted to enter into transactions that would limit the economic risk of options or other unvested entitlements.

11 March 2016