



August 2019

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## **Corporate Governance Statement**

### **Nanosonics Limited**

ABN 11 095 076 896

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The Board of Directors of Nanosonics Limited (Nanosonics or the Company) is committed to ensuring that its policies and practices reflect good corporate governance consistent with the Australian Securities Exchange (ASX) Listing Rules and the ASX Corporate Governance Principles and Recommendations (3rd Edition released on 27 March 2014).

This Corporate Governance Statement sets out Nanosonics' key corporate governance principles and practices, and the extent to which the Company has followed the recommendations set by the ASX Corporate Governance Council during the last reporting period, being 1 July 2018 to 30 June 2019. This Corporate Governance Statement is accurate as at 27 August 2019 and has been approved by the Board and a copy is available on the Company's website at <http://www.nanosonics.com.au/Investor-Centre/Corporate-Governance>, together with the charters and policies referred to in this Statement.

Nanosonics recognises that the ASX Corporate Governance Council (Council) issued a fourth edition of its Corporate Governance Principles and Recommendations on 27 February 2019, which takes effect for listed entities on or after 1 January 2020.

## **PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

### **Generally**

There is a clear distinction between the role and responsibilities of the Board and the role and responsibilities of the Company's Chief Executive Officer & President (CEO&P) and the senior executive team. The balance of responsibilities between the Board and the executives is reviewed on a regular basis so as to ensure that the division of functions remains appropriate to the needs of the Company.

### **Roles and Responsibilities of the Chairman**

The Chairman of Nanosonics is responsible for leading the Board, its meetings and Directors so that all Directors are able to contribute effectively, all matters are properly considered and there is clear decision making. The Chairman has the ultimate responsibility to ensure that corporate governance matters are properly considered by the Directors.

### **Roles and Responsibilities of the Board**

The role of the Board is to provide strategic guidance to the Company and to provide effective oversight of its management for the benefit of all stakeholders. The Board acts on behalf of shareholders, and is accountable to them for the overall strategy, governance and performance of the Company. The Board oversees management's implementation of Nanosonics' strategic objectives and its performance generally, and retains ultimate authority over the management of the Company. The day-to-day management of the Company's affairs and the implementation of its strategies are formally delegated by the Board to the CEO&P and the senior executives.

The respective roles and responsibilities of the Board and senior executives, reflecting how they are distinct from each other, and the matters expressly reserved to the Board and those delegated to management, are set out in detail in the Company's Board Charter, which is available on the Company's website.

The Board meets regularly, in accordance with an agreed schedule, and special meetings are held as and when required. Details of Directors' attendances at meetings of the Board are shown in the Directors' Report contained in the Company's Annual Report. The Board requires that each Director has the appropriate competencies to fulfil their role, and that they perform effectively in their respective role and on the Board. Nanosonics has a Nomination Committee, which is responsible for recommending a framework for the assessment and evaluation of the performance of each Director individually, of each committee and of the Board as a whole. These responsibilities are set out in the Company's Nomination Committee Charter, which is available on the Company's website. The

performance of the Board, individual Directors and each of the Board committees is reviewed annually. The most recent review was conducted in November 2018. Directors and selected management anonymously completed a questionnaire, which was followed by a discussion of the questionnaire responses. The individual performance of Directors is reviewed by the Chairman, and the Chairman's performance is reviewed by the Deputy Chairman. The Board is responsible for appointing the Chairman and the CEO&P and approving the appointment of senior executives.

The Board is responsible for approving operating budgets and major capital expenditure, and for overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit. The Board is responsible for satisfying itself that the Company's remuneration policies are aligned with the entity's purpose, values and strategic objectives

### **Roles and Responsibilities of Senior Executives**

The roles and responsibilities of the senior executives are set out in the Company's Annual Report in the Information on the Directors, Company Secretaries and Executive Team section and in the Remuneration Report included in the Directors' Report.

Nanosonics has an Annual Performance Review process that reviews the performance of its senior executives against the completion of personal objectives and strategic priority objectives. The performance of each senior executive is reviewed by the CEO&P and the most recent reviews were conducted in July 2019.

### **Committees of the Board**

The Board has established and is assisted by committees that are responsible for aspects of the operation of the Company and which act by examining relevant matters and making recommendations to the Board. The Board may establish additional committees to assist it in carrying out its responsibilities. The Board may also delegate specified responsibilities to ad-hoc committees. The Directors must be satisfied that the members of a committee are competent and will exercise their delegated functions in accordance with Directors' duties.

During the recent reporting period there were four committees of the Board: the Nomination Committee, the Audit and Risk Committee, the Remuneration & People Committee, and the R&D and Innovation Committee. Charters for these four Committees are available on the Company's website. Details of the number of meetings of the committees held and Directors' attendances at those meetings are shown in the Directors' Report contained in the Company's Annual Report. The chairs of each of the committees, with the exception of the Nomination Committee, are different individuals to the Chairman of the Board.

### **Checks and Material Information Prior to Appointments**

Nanosonics undertakes appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director, and the Company provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director. These include checks as to the person's character, experience, education, criminal record and bankruptcy history. Information provided to security holders in the Company's Notices of Meetings includes: biographical details, such as their relevant qualifications and experience, and the skills they bring to the Board; details of any other material directorships currently held by the candidate; in the case of a candidate standing for election as a Director for the first time, any material adverse information revealed by the checks the Company has performed about the Director, details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board, and to act in the best interests of the Company and its security holders generally, and, if the Board considers that the candidate will, if elected, qualify as an independent Director, a statement to that effect; in the case of a candidate standing for re-election as a Director, the term of office currently served by the Director and, if the Board considers the Director to be an

independent Director, a statement to that effect, and a statement by the Board as to whether it supports the election or re-election of the candidate and a summary of the reasons why.

A candidate for appointment or election as a Non-executive Director must provide the Board with the information above and a consent for Nanosonics to conduct any background or other checks the Company would ordinarily conduct. The candidate must also provide: details of his or her other commitments; an indication of the time involved; and an acknowledgement to the Company that he or she will have sufficient time to fulfil his or her responsibilities as a Director.

### **Written Agreements for Terms of Appointment**

Nanosonics has a written agreement with each Director and senior executive setting out the terms of their appointment. The Directors and senior executives of Nanosonics have a clear understanding of their roles and responsibilities and of the Company's expectations of them and these have been reduced to written agreements. These agreements take the form of letters of appointment in the case of Non-executive Directors and service contracts in the case of Executive Directors or other senior executives.

In the case of Non-executive Directors, the agreements generally set out: the terms of appointments; the time commitments envisaged, including any expectations regarding involvement with committee work and any other special duties attaching to the positions; remuneration, including superannuation entitlements; the requirements to disclose Directors' interests and any matters that may affect Directors' independence; the requirements to comply with key corporate policies, including Nanosonics' Code of Conduct and Ethics, and its Securities Trading Policy; Nanosonics' requirement to notify the Company before accepting any new role that could impact the Non-executive Director's time commitments or give rise to a conflict of interest; Nanosonics' policy on when Directors may seek independent professional advice at the expense of the Company (which is generally whenever Directors, especially Non-executive Directors, judge such advice necessary for them to discharge their responsibilities as Directors); the circumstances in which the Directors' offices become vacant; indemnity and insurance arrangements; ongoing rights of access to corporate information; and ongoing confidentiality obligations.

In the case of Executive Directors or other senior executives, the service contracts generally set out the information above, to the extent applicable, as well as: descriptions of their positions, duties and responsibilities; the persons or bodies to whom they report; the circumstances in which their services may be terminated (with or without notice); and any entitlements or obligations on termination. The service contracts are updated, as required, to reflect any changes in roles and responsibilities of senior executives.

Nanosonics is required under the ASX Listing Rules to disclose the material terms of any employment, service or consultancy agreement it or a child entity enters into with its CEO&P (or equivalent), any of its Directors, and any other person or entity who is a related party of its CEO&P or any of its Directors. It is also required to disclose any material variation to such an agreement. Details of the key terms of the CEO&P's employment agreement are shown in the Directors' Report contained in the Company's Annual Report.

### **Securities Trading Policy**

The Company has a Securities Trading Policy, which applies to all Nanosonics staff (including Directors, officers and employees of Nanosonics and its group companies, as well as contractors and consultants). The Policy sets out an additional requirement for Designated Persons to obtain written approval before dealing in any Nanosonics securities. Designated persons include Directors and officers, the executive management team and its direct reports, and any other person nominated by the Board from time to time. All Nanosonics staff may only deal in the Company's securities in accordance with the Policy, and the Company regularly reviews share trading reports and its share register to ensure compliance with the Policy. The Company's Securities Trading Policy was updated in August 2017, and a copy of which is available on the Company's website.

## Company Secretary

Until 19 July 2018, Nanosonics had two joint Company Secretaries. On that date, as notified to the ASX on 20 July 2018, one of the joint Company Secretaries retired, leaving Nanosonics with a single Company Secretary for the balance of the 2019 financial year. The Company Secretary of Nanosonics is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. The Company Secretary of Nanosonics plays an important role in supporting the effectiveness of the Board and its committees. The role of the Company Secretary includes: advising the Board and its committees on governance matters; monitoring that Board and committee policies and procedures are followed; co-ordinating the timely completion and despatch of Board and committee papers; ensuring that the business at Board and committee meetings is accurately captured in the minutes; and helping to organise and facilitate the induction and professional development of Directors. Each Director is able to communicate directly with the Company Secretary and vice versa. The decision to appoint or remove a Company Secretary is made or approved by the Board.

## Diversity

Nanosonics believes that the pursuit of diversity in the workplace increases its ability to attract, retain and develop the best talent available, and that it creates an engaged workforce, delivers the highest quality services to its customers, enhances individual work-life balance, encourages personal achievement, improves co-operation and assists in the optimisation of organisational performance. Diversity in the workplace mirrors the diversity of the broader community, encompassing age, gender, ethnicity, cultural and other personal factors. The Company respects the diversity of all employees, consultants and contractors, and cultivates an environment of fairness, respect and equal opportunity. Nanosonics recognises the corporate benefits of diversity in a competitive labour market, in that it can broaden the pool for recruitment of high quality employees, enhance employee retention, foster a closer connection with and better understanding of customers, and improve corporate image and reputation. The Company has a Diversity Policy which was updated in May 2019, which includes requirements for the Board to set measurable objectives for achieving gender and other forms of diversity, and to assess both the objectives and Nanosonics' progress in achieving them at the end of each reporting period. A copy of Nanosonics' Diversity Policy is available on the Company's website.

Set out below are the diversity objectives established by the Board:

- ) The pay for a specific job type and level will be the same regardless of gender or cultural background taking relevant experience and skills into consideration.
- ) Target 30% females at Board level and improve the current 30% for senior management.
- ) Integrate diversity principles into the Company's recruitment framework by incorporating a diversity statement on all job advertisements globally and ensuring training for all hiring managers on diversity awareness, recognising unconscious bias, inclusive job description writing and best practice recruitment activities.
- ) Seek to ensure the Company has a balanced selection of final round candidates, taking into account the principles of diversity (as described in the Company's Diversity Policy), for all Board and senior management roles, and seek to ensure there is diversity in the selection panel for each.
- ) Target that 50% of all interns who are offered positions with the Company from the Nanosonics University Program are female.
- ) Continue to implement programs that prepare selected high potential females to take on senior roles within the business both in operational and specialist support areas.

At the end of each reporting period, the Board assesses its diversity objectives and the Company's progress against the objectives is reported.

At the end of the last reporting period other measurable objectives for achieving gender diversity, and the Company's progress towards achieving them, included: continuing to actively fund programmes to develop the skills of female employees who have the potential to move into senior roles in the Company, support from the Company for female representatives of Nanosonics' involvement in Women in Science Society and Australian Biotech Women in Life Sciences events. The Company continued sponsoring an employee in the Women in MBA programme with the Macquarie Graduate School of Management at Macquarie University, and continued to provide flexible working arrangements and support for another female staff member undertaking an MBA.

The Company also engages in flexible work practices (such as working from home, and part-time work) from time to time for female employees returning to work from maternity leave.

As at 30 June 2019, women represented 36% (2018: 35%) of Nanosonics' workforce, 30% in senior executive positions (2018: 29%) and 17% at Board level (2017: 17%). Nanosonics defines senior executive for the purposes of this Statement as those who directly report to the CEO&P and those positions that report to the CEO&P's direct reports.

## **PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE**

### **Nomination Committee**

At the beginning of the last reporting period there were five members of Nanosonics' Nomination Committee being Mr Maurie Stang, Dr David Fisher, Mr Richard England, Mr Steven Sargent and Ms Marie McDonald. The Committee is comprised of a majority of four independent Directors, but is chaired by a non-independent Director, Mr Maurie Stang, who the Board does not consider to be an independent Director, as he is a founder of the Company. Maurie Stang held executive office in the Company until March 2007, is a major shareholder of the Company and he is a director and/or shareholder of companies with which the Company had significant transactions. At this stage, the Committee is not chaired by an independent Director because it was agreed that Mr Maurie Stang's experience in the Company and the industry made him the most appropriate member to chair the Committee.

The Nomination Committee is appointed by the Board to assist it in discharging its responsibilities in relation to:

- J the consideration of Board nomination, including composition, structure and operation of the Board, and ensuring the Board is comprised of individuals who are best able to discharge their responsibilities as Directors;
- J recommending to the Board a system of performance appraisal for Directors and the Board of Nanosonics as a whole; and
- J the consideration of diversity matters, including ensuring the Company meets the requirements of the ASX Diversity Guidelines.

The Nomination Committee is responsible for the identification and selection of suitable candidates for appointment as a Director. The Committee assesses potential Directors to ensure that the Board includes an appropriate mix of skills to allow it to maximise its effectiveness and contribution to the Company. Selection criteria include relevant experience and qualifications, availability, communication capabilities, community standing and integrity. After assessment, candidates are recommended to the Board by the Committee. In the circumstance when the Nomination Committee is considering the appointment of a successor to the chair of the Board, because the chair of the Committee is also the chair of the Board, a separate chair of the Nomination Committee would be appointed. Further information about the independence of the Directors is provided under Directors' Independence, below.

The Nomination Committee reviews and makes recommendations to the Board in relation to: Board succession planning generally; induction and continuing professional development programmes for

Directors; the development and implementation of a process for evaluating the performance of the Board, its committees and Directors; the process for recruiting a new director, including evaluating the balance of skills, knowledge, experience, independence and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment; the appointment and re- election of Directors; and ensuring there are plans in place to manage the succession of the CEO&P and other senior executives.

A copy of the Nomination Committee Charter is available on the Company's website. Details of the number of meetings of the Committee and Directors' attendances at those meetings are shown in the Directors' Report contained in the Company's Annual Report.

### Skills Matrix

Nanosonics has a Board skills matrix, listed below, setting out the mix of skills and diversity that the Board currently has.

<b>Skills and experience</b>	<b>Number of Directors (out of six)</b>
<b>Management and leadership</b> Sustained success in business at a senior level	6
<b>Global experience</b> Experience at a senior level in organisations with multiple global locations with exposure to a range of political, regulatory and business environments	6
<b>Industry knowledge</b> Experience at a senior level in the life sciences industry	5
<b>Regulatory strategy and compliance</b> Experience at a senior level in the licensing, marketing and legal compliance of medical devices or similarly regulated products	4
<b>Strategy development</b> Track record of developing and implementing successful strategies including oversight of management or people to ensure objectives are delivered	6
<b>Marketing</b> Experience at a senior level in marketing products in the life sciences industry	4
<b>Corporate governance and compliance</b> Substantial experience with organisations that are subject to rigorous governance and compliance standards and an ability to assess the effectiveness of management	6
<b>Financial/legal acumen</b> Experience at a senior level in financial accounting and reporting, corporate finance and internal financial controls or the provision of legal services to large business enterprises	6
<b>Business development</b> Significant experience in successfully building or acquiring or advising on the acquisition of new businesses and/or substantially growing existing businesses in both existing markets and new markets	6
<b>Risk management</b> Experience at a senior level in the identification, monitoring and management of risk to ensure the delivery of long-term value to shareholders	6
<b>R&amp;D / Product development</b> Experience in research and development or product development in the life sciences	4
<b>Manufacturing and Quality</b> Experience in the operations of Manufacturing and Quality in the life sciences industry	3

## Directors' Independence

The independent Directors of the Company are not allied with the interests of management, substantial security holders or other relevant stakeholders. These independent Directors are characterised and described as independent Directors as they are free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect their capacity to bring independent judgement to bear on issues before the Board, and to act in the best interests of the Company and its security holders generally. The composition of the Board has remained unchanged during the last reporting period. The Board consists of five Non-executive Directors and one Executive Director. Directors' independence is assessed according to the provisions set out in the Company's Board Charter and in the ASX Corporate Governance Principles and Recommendations (3rd Edition). The names of the Directors, their Board positions, length of service and status as to director's independence as at the end of the recent reporting period, is set out below.

- J Mr Maurie Stang is the Non-executive Chairman of Nanosonics and was appointed as a Director on 14 November 2000. He is not considered to be an independent Director as he is a founder of the Company, he held executive office in the Company until March 2007, he is a major shareholder of the Company and he is a director and/or shareholder of companies with which the Company had significant transactions during the last reporting period (refer to the Directors' Report included in the Annual Report).
- J Mr Michael Kavanagh is the Chief Executive Officer & President and Managing Director of Nanosonics. He was appointed as a Non-executive Director on 30 July 2012 and became an Executive Director on 21 October 2013. He is not considered to be an independent Director as he is an executive of the Company.
- J Dr David Fisher is a Non-executive Director of Nanosonics and was appointed as a Director on 30 July 2001. He is considered to be an independent Director. He served as interim Executive Director for the period 14 December 2007 to 16 June 2008. For the period 9 May 2011 to 29 March 2013 Dr David Fisher served as Managing Director of Aeris Environmental Ltd where Mr Maurie Stang is the Non-executive Chairman and a substantial shareholder. However, the Board is of the opinion that this, and the fact that Dr David Fisher has been a Director of the Company for 17 years, do not compromise his independence as a Director, or the nature of his interest, position, association or relationship in question because he complies with all other requirements set out in Box 2.3 of the ASX's Recommendations that are relevant in assessing the independence of a Director.
- J Mr Richard England is a Non-executive Director of Nanosonics and was appointed as a Director on 5 February 2010. He is considered to be an independent Director. It is noted that Mr England has indicated his intention to resign from the Board on 31 August 2019.
- J Mr Steven Sargent is a Non-executive Director of Nanosonics and was appointed as a Director on 6 July 2016. On 6 October 2017, Mr Sargent was appointed Deputy Chair of the Board and Lead Independent Director. He is considered to be an independent Director.
- J Ms Marie McDonald is a Non-executive Director of Nanosonics and was appointed as a Director on 24 October 2016. She is considered to be an independent Director.
- J On 17 July 2019, following the end of the reporting period, Mr Geoff Wilson was appointed to the Board as a Non-executive Director. He is considered to be an independent Director.

Accordingly, the majority of the Directors of the Board Nanosonics are independent. The Board considers that it acts in the best interests of the Company and its security holders and believes that having a majority of independent Directors helps ensure that its decision-making is fair and impartial, maximising the likelihood that the decisions will reflect the best interests of the Company and its security holders generally and that it is not biased towards the interests of management or any other person or group with whom a non-independent Director may be associated. The Non-executive Directors confer periodically without the Executive Director or other senior executives present.

The Chairman of the Board of Nanosonics is not an independent Director for the abovementioned reasons. At this stage, the Board is not chaired by an independent Director because it was agreed



that Mr Maurie Stang's experience in the Company and the industry made him the most appropriate member to chair the Board.

Consistent with the ASX Corporate Governance Principles and Recommendations 3rd Edition, the Chairman of the Board is not the same person as, and is therefore separate from, the CEO&P of the Company. The Board understands that good governance demands an appropriate separation between those charged with managing the Company and those responsible for overseeing its managers in order for it to effectively perform its role of challenging management and holding them to account. Further details on each Director, including their qualifications and experience, are set out in the Information on the Directors, Company Secretaries and Executive Team section of the Annual Report and on the Nanosonics website at <https://www.nanosonics.com.au/about/board-of-directors/>.

### **Induction, Education and Access of Directors**

Nanosonics has a programme for inducting new Directors. Every new Director receives an appointment letter accompanied by a Director's Deed of Access, a copy of the Company policies and charters and induction training.

Nanosonics provides appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively and lawfully. Directors and the Board have the right, in connection with their duties and responsibilities, to obtain independent professional advice at the Company's expense. Subject to prior approval from the Chairman, which will not be unreasonably withheld, a Director may have direct access to any employee or contractor of the Company and seek any information from any employee in order to perform his or her responsibilities.

The Nomination Committee and the Board of Nanosonics reviews whether or not the Directors as a group have the skills, knowledge and familiarity with the Company and its operating environment required to fulfil their role on the Board and on Board Committees effectively and, where any gaps are identified, considers what training or professional development could be undertaken to fill those gaps. Where necessary, the Company provides briefings on material developments in the law, regulations, and accounting standards, as well as resources to help develop and maintain its Directors' skills and knowledge.

## **PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY**

### **Code of Conduct and Ethics**

Nanosonics has a Code of Conduct and Ethics for its Directors, senior executives and employees. The Company acknowledges that good corporate governance depends on the personal integrity of those on the Board and in management. Nanosonics clearly articulates in its Code of Conduct and Ethics what it regards as acceptable business practices for its Directors, senior executives and employees. The Company's Code of Conduct and Ethics is a meaningful statement of its core values and is promoted as such across the organisation and reinforced by proper training and proportionate disciplinary action if it is breached. All Directors, officers, employees, advisors, consultants and contractors of the Company are expected to speak and act with integrity and objectivity, and to maintain the highest possible ethical standards. The Code of Conduct is periodically reviewed to check that it is operating effectively and is available on the Company's website.

### **Whistleblower Protection/Speak Up Policy**

The Company recognises its responsibilities to conduct its business in accordance with both Australian and internationally accepted practices and procedures. Therefore, Nanosonics is committed to maintaining a culture where all Directors, staff, contractors and consultants of the Company are encouraged to speak up about unlawful, unethical, irresponsible, poor and/or unacceptable practices and misconduct.

Nanosonics has a Speak Up Policy (which replaced its Whistleblower Protection Policy) to provide a process by which Directors, staff, contractors and consultants of the Company can express serious concerns, and report misconduct, unlawful or unethical behaviour. The Speak Up Policy applies to everyone working for or dealing with Nanosonics in any capacity and it is available to view on the Company's website.

#### **Anti-bribery and Anti-corruption Policy**

In October 2017, Nanosonics published its Anti-bribery and Anti-corruption Policy which sets out the Company's position with respect to bribery and corruption, and provides information and guidance to those working for or with Nanosonics on how to recognise and deal with bribery and corruption issues. The Anti-bribery and Anti-corruption Policy applies to everyone working for Nanosonics in any capacity and it is available to view on the Company's website.

### **PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING**

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

Nanosonics has an Audit and Risk Committee which has three members being Mr Richard England (Committee Chairman), Dr David Fisher and Ms Marie McDonald, all of whom are Non-executive Directors and all of whom are independent Directors. The Audit and Risk Committee is chaired by an independent Director, who is appropriately qualified and financially literate and who is not the Chairman of the Board. Information about the members of the Audit and Risk Committee, and their relevant qualifications and experience, is set out on the Company's website in the About Us section under the Board of Directors link and in Nanosonics' Annual Report.

The purpose of the Audit and Risk Committee is to assist the Board to discharge its responsibilities in relation to the oversight and monitoring of:

- ) the adequacy of the Company's corporate reporting processes, including the financial reporting process;
- ) the scope and adequacy of the external audit;
- ) risk management and internal control;
- ) compliance with laws, regulations, internal policies and industry standards; and
- ) activities to prevent, deter, detect and report on fraud.

The Audit and Risk Committee brings the focus and independent judgement needed to oversee the corporate reporting process. The role of this Committee is also to review and make recommendations to the Board in relation to the adequacy of Nanosonics' corporate reporting processes, whether or not Nanosonics' financial statements reflect the understanding of the Committee members of (and otherwise provide a true and fair view of) the financial position and performance of the Company, and in relation to the appropriateness of the accounting judgements or choices exercised by management in preparing Nanosonics' financial statements.

The Audit and Risk Committee is also responsible for selecting and recommending the appointment or removal of the external auditor to the Board. The Committee also considers the independence and performance of the external auditor and any proposal for the external auditor to provide non-audit services and whether or not the provision of such services might compromise the independence of the external auditor. The Company has an Auditor Independence Policy which it follows in this respect. The Committee also considers a number of criteria in appointing the external auditor, including audit approach, governance processes, key personnel and cost, and then provides the Board with its recommendation. In line with current professional standards, the external audit partner is required to rotate after five years and cannot return as audit partner for a further two years. It is the external auditor's role to provide an independent opinion as to whether or not the Company's financial reports are true and fair, and comply with the Australian Accounting Standards and the Corporations Act 2001.

The Audit and Risk Committee Charter is available on the Company's website. Details of the number of times the Committee met throughout the period and Directors' attendances at those meetings are shown in the Directors' Report contained in Nanosonics' Annual Report.

### **CEO&P / CFO Declarations**

Before the Board of Nanosonics approves the Company's financial statements for a financial period, it receives from its CEO&P and its Chief Financial Officer (CFO) a joint declaration that, in their opinion, the financial records of the Company 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 Company, and that the opinion has been formed on the basis of a sound system of risk management and internal control, which is operating effectively. The declaration is given before the Directors approve the financial statements for the financial year and half-year.

### **External Auditor's Attendance at the Annual General Meeting (AGM)**

Nanosonics' external auditor attends its AGM and is available to answer questions from security holders relevant to the audit, such as the conduct of the audit of the Company, and the preparation and content of the Independent Auditor's Report on the financial statements of Nanosonics. The Company recognises that the opportunity for security holders to question its external auditor at the AGM is an important safeguard for the integrity of the corporate reporting process.

## **PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE**

The Company recognises and respects the rights of shareholders, and seeks to facilitate the effective exercise of those rights within the limitations of the continuous disclosure provisions of the ASX Listing Rules. Nanosonics has a written Continuous Disclosure and Shareholder Communication Policy to ensure compliance with its continuous disclosure obligations under the ASX Listing Rules and for ensuring individual accountability at senior executive level for that compliance. In determining whether or not information should be disclosed, the Board takes into consideration the needs and interests of the Company's shareholders and other stakeholders in the context of the Company's obligations under the Corporations Act 2001 and the ASX Listing Rules. ASX Listing Rule 3.1 requires a listed entity, subject to certain exceptions, to disclose to the ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of its securities. Nanosonics' Continuous Disclosure and Shareholder Communication Policy is directed to ensuring that the Company complies with this obligation so that all investors have equal, accurate and timely access to material information concerning Nanosonics, including its financial position, performance, ownership and governance. ASX announcements are made when the Board or executive management become aware of information required to be disclosed to the market. Nanosonics' Continuous Disclosure and Shareholder Communication Policy is available on the Company's website.

## **PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS**

### **The Company's Website**

Nanosonics understands that investors expect information about listed entities to be freely and readily available and so it provides information about itself and its governance practices to investors via its website: [www.nanosonics.com.au](http://www.nanosonics.com.au). The Company ensures that relevant corporate information is complete and available in a timely manner. Nanosonics' website has an Investor Centre page with a Corporate Governance landing page from where all relevant corporate governance information can be readily accessed. In the Corporate Governance area of its website the Company has links to its Constitution, Board Charter and the Charters of each of its four Board committees, the corporate governance policies and other corporate governance materials referred to in this Statement. The Investor Centre page on the website also provides links to Share Price Information, Reports and Presentations of the Company, including its Annual Reports, Company Presentations and Analysts' Reports, ASX Announcements the Company has made after they have been released to the ASX,

including Notices of Meetings of security holders and any accompanying documents, contact details for the Company's Share Registry and a Glossary of Terms.

The About Us section of the Company's website provides information about the story and mission of Nanosonics as well as links to the names, photographs and brief biographical information for each of the Company's Directors, Executive Team and International Management Team. Nanosonics' website also includes a Trophon tab with information on the Company's leading product, a tab with relevant Clinical information, an Education tab with advice on training, webinars and resources, a News and Events tab with information on the latest guidelines and on events that Nanosonics will be attending and a Contact page with contact details for enquiries or comments.

### **Investor Relations**

Nanosonics has an investor relations programme to facilitate effective two-way communication with investors which is tailored to the individual circumstances of the Company. Activities include actively engaging with security holders at the AGM and meeting with security holders on request and responding to any phone enquiries. In addition, the Company has a detailed programme of scheduled and ad hoc interactions with institutional investors, private investors, sell-side and buy-side analysts and the financial media. A primary aim of the investor relations programme is to allow investors and other financial market participants to gain a greater understanding of Nanosonics' business, governance, financial performance and prospects, as well as providing an opportunity for investors and other financial market participants to express their views to the Company on matters of concern or interest to them. Where they do so, those views are distilled and communicated to Nanosonics' Board. Shareholders and prospective shareholders are welcome, by prior appointment, to speak with executive managers responsible for investor relations and to view the Company's operations.

### **Participation at Meetings of Security Holders**

The processes Nanosonics has in place to facilitate and encourage participation at meetings of security holders include the ability of shareholders to pre-submit questions to be answered at the Company's AGM, which are responded to at the meeting, as appropriate, and the availability of key members of management to answer questions during and after the formal business of the AGM. Nanosonics' policy for communication with shareholders and encouraging their participation at general meetings is contained in the Company's Continuous Disclosure and Shareholder Communication Policy. The Company encourages shareholder participation, particularly through their attendance at the general meetings of the Company, or voting by proxy. At Nanosonics' AGMs the external auditor is available to answer shareholder questions. The Company views meetings of security holders as an important forum for two-way communication between it and its security holders, providing an opportunity for the Company to impart to security holders a greater understanding of Nanosonics' business, governance, financial performance and prospects, as well as being a platform to discuss, ask questions on and make comments on areas of concern or interest to the Board and management. Meetings of security holders also provide an opportunity for security holders to express their views to the Company's Board and management about any areas of concern or interest for them.

### **Electronic Communications**

Nanosonics gives security holders the option to receive communications from, and send communications to, the Company and its Share Registry electronically. Nanosonics acknowledges that many security holders appreciate the speed, convenience and environmental friendliness of electronic communications, compared with more traditional methods of communication. The Company ensures relevant corporate information is complete and available in a timely manner on its website, including posting webcasts or recordings of teleconferences, and providing updates and reports to shareholders by email. In the Investor Centre section of Nanosonics' website there is a Share Registry tab providing contact information for the Company's Share Registry, including links to its website and email address for any shareholder queries. Security holders can also go to the

Contact section of Nanosonics' website to electronically submit to the Company any enquiries they may have.

## **PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

### **Overseeing Risk**

Nanosonics' Audit and Risk Committee is responsible for overseeing and monitoring risk and compliance management. The Committee's three members, as mentioned under Principle 4 above, are all independent Directors and the Committee is chaired by an independent Director. The Audit and Risk Committee's responsibilities in relation to risk and compliance are included in the Audit and Risk Committee Charter.

While ultimate responsibility for the Company's risk management framework rests with the full Board, the Audit and Risk Committee brings the focus and independent judgement needed to oversee Nanosonics' risk management framework. The role of the Committee includes reviewing and making recommendations to the Board in relation to the adequacy of the Company's processes for managing risk, any incident involving fraud or other break down of Nanosonics' internal controls, and the Company's insurance programme, having regard to Nanosonics' business and the insurable risks associated with its business. The Company has also established and documented an enterprise risk management programme for the oversight and management of Nanosonics' material business risks. The Company's enterprise risk management system is based on the International Risk Standard AS/NZS ISO 31000:2009 and is complemented by an internal control programme based upon the principles set out in the Australian Compliance Standard AS 3806:2006.

### **Reviewing the Company's Risk Management Framework**

The Audit and Risk Committee reviews the Company's risk management framework at least annually to satisfy itself that it continues to be sound. Such a review has taken place within the last reporting period, which satisfied the Committee and the Board that the framework continues to be sound. The insights that the Company has gained from this latest review confirm the suitability of the Company's risk management framework.

The Company's electronic risk and compliance system, which facilitates the linking of material business risks to mitigating controls so that the performance of the Company's enterprise risk and compliance programmes dealing with matters such as conduct risk, digital disruption, cyber security, privacy and data breaches with can be monitored regularly, has been reviewed during the reporting period to ensure that it is working effectively and is up-to-date. Management reports to the Board on the effectiveness of the Company's management of its material business risks, with the most recent report being provided in May 2019.

The CEO&P and the CFO have both confirmed to the Board that the declaration provided in the Annual Report in accordance with section 295A of the Corporations Act 2001 is founded upon sound systems of internal control, and that the systems are operating effectively in all material respects in relation to financial reporting risks.

### **Internal Audit Function**

Nanosonics does not have an internal audit function. During the year the Board considered whether to appoint an internal auditor and formed the view that it remains most cost effective and appropriate for the Company at its current stage of development to retain external consultants as and when required, and supplement this with certain additional internal audit activity performed by the Company. The Company will continue to assess its internal audit requirements, and review the need to establish its own internal audit function on an ongoing basis.

In the last year, the Company engaged its statutory auditor to review Nanosonics' information technology general controls and internal controls associated with its procurement to payment

processes. The Board considered that it was most cost effective for this work, which is of an assurance nature, to be carried out by its statutory auditor. In addition, certain internal audit activity (relating to review of internal controls) was conducted by employees of the Company, and a direct reporting line existed between the individuals performing the internal audit activity and the Chair of the Audit & Risk Committee for that purpose.

### **Evaluating and improving the Company's governance, risk management and internal control processes**

The processes the Company employs for evaluating and continually improving the effectiveness of its risk management and internal control processes are carried out under the supervision of the Audit and Risk Committee. These processes include: analysing the common risk language that has been developed and through which it considers internal risks, such as those arising from financial and human resource management; examining external risks, such as those arising from dealings with key stakeholders; and monitoring macro-environmental issues, such as regulatory changes or economic events beyond the Company's control. In assessing material business risks, each identified risk is individually evaluated in terms of the likelihood of the risk event occurring and the potential consequences in the event that the risk was to occur.

### **Material Exposure to Economic, Environmental and Social Risks**

Nanosonics has not identified any specific material exposure to economic, environmental and social sustainability risks which should be considered by the Audit and Risk Committee. The Company continues to operate with a long-term perspective in order to achieve a level of economic growth utilising the experience of a Board of Directors who have achieved success in business at a senior executive level. Nanosonics has a goal of not compromising the health of the ecosystems in which it operates over the long term. The Company has worked, and continues to work, in a manner that meets accepted social norms and needs, and intends to continue to do so into the future. Further information about environmental and social considerations is disclosed in the Environmental, Social and Governance section of the Annual Report.

Nanosonics has an Environmental Policy, which is available on the Company's website.

## **PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

### **Remuneration & People Committee**

Nanosonics has a Remuneration & People Committee which consists of four members, Mr Steven Sargent (Committee Chairman), Ms Marie McDonald, Mr Richard England and Mr Maurie Stang. There are four members of the Committee, which continues to be chaired by an independent Director and has a majority of independent Directors.

The Remuneration & People Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered. The purpose of the Remuneration & People Committee is to assist the Board to discharge its responsibilities by:

- )] reviewing and recommending to the Board for approval Nanosonics' remuneration strategy and policy and ensuring that appropriate processes and procedures are in place to assess the remuneration levels of the Board and executive key management personnel, and all other employees across the Company;
- )] considering and proposing to the Board the remuneration of the CEO&P and considering and approving the remuneration of all designated senior executives;
- )] reviewing and recommending to the Board for approval Nanosonics' incentive schemes, including amounts, terms and offer processes and procedures; and
- )] determining and recommending to the Board for approval equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions.

The Remuneration & People Committee also reviews and make recommendations to the Board in relation to Nanosonics' remuneration framework for Directors, the remuneration packages to be awarded to senior executives, equity-based remuneration plans for senior executives and other employees, superannuation arrangements for Directors, senior executives and other employees, and whether or not there is any gender or other inappropriate bias in remuneration for Directors, senior executives or other employees.

Nanosonics' Remuneration & People Committee Charter is available on the Company's website. Details of the number of times the Committee met throughout the period and Directors' attendances at those meetings are shown in the Directors' Report contained in Nanosonics' Annual Report.

The Company's remuneration philosophy and policies are set out in the Remuneration Report in the Annual Report, which includes a summary of the Company's remuneration strategy.

### **Remuneration of Non-executive Directors, and Executive Directors and Senior Executives**

Nanosonics is required under the Corporations Act 2001 to make detailed disclosure in its Remuneration Reports of its remuneration policies for key management personnel. Those reports are subject to an advisory vote by security holders and a "two-strikes rule" at the AGM. The Company's Remuneration Report clearly articulates and separately discloses its policies and practices regarding the remuneration of Non-executive Directors, and the remuneration of Executive Directors and other senior executives. These policies and practices appropriately reflect the different roles and responsibilities of Non-executive Directors compared with Executive Directors and other senior executives.

Nanosonics has developed a policy in relation to the clawback of remuneration in certain circumstances. A copy of this policy is available on the Company's website.

As noted in Nanosonics' Remuneration & People Committee Charter, this Committee has regard to the overriding goal of ensuring that Directors and senior executives of the Company are motivated to pursue the long-term growth and success of the Company within an appropriate control framework, and that there is a clear relationship between performance and remuneration.

### **Equity-Based Remuneration Scheme**

Nanosonics has an equity-based remuneration scheme and a policy that prohibits participants from entering into transactions (whether through the use of derivatives or otherwise) that limit the economic risk of participating in the scheme without prior approval of the Board. This policy is described in the Company's Securities Trading Policy, which is available on the Company's website. The Corporations Act 2001 prohibits the key management personnel of an ASX-listed company established in Australia, or a closely-related party of such personnel, from entering into an arrangement that would have the effect of limiting their exposure to risk relating to an element of their remuneration that either has not vested or has vested but remains subject to a holding lock. Nanosonics is required to obtain security holder approval for the issue of securities to Directors or their associates under any equity-based incentive scheme.