

## **DISCLOSURE ON COMPANY WEBSITE**

### **CORPORATE GOVERNANCE**

#### **INTRODUCTION**

Structural Monitoring Systems plc ("SMS") has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures are summarised below. The board of SMS is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

#### **BOARD CHARTER**

##### **1. Role of the Board**

The Board's key objectives are to:

- (a) increase shareholder value within an appropriate framework which safeguards the rights and interests of the Company's shareholders; and
- (b) to ensure the Company is properly managed.

##### **2. Responsibility of the Board**

The Board is collectively responsible for promoting the success of the Company by:

- (a) supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed which includes but is not limited to (a) to (h);
- (b) ensuring the Company is properly managed for example by:
  - (i) appointing and removing the chief executive officer of the Company;
  - (ii) ratifying the appointment and, where appropriate, the removal of the chief financial officer and the company secretary;
  - (iii) input into and final approval of management's development of corporate strategy and performance objectives;
  - (iv) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
  - (v) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- (c) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;

- (d) approval of the annual budget;
- (e) monitoring the financial performance of the Company;
- (f) approving and monitoring financial and other reporting;
- (g) overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- (h) liaising with the Company's external auditors and audit committee; and

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities usually not less than one per month.

The Board may from time to time, delegate some of its responsibilities listed above to its senior management team (except for paragraphs [(a), (b), (f) and (g)] and where any matter exceeds the Materiality Threshold as defined below).

### 3. **Materiality Threshold**

The Board has agreed on the following guidelines for assessing the materiality of matters:

(a) **Materiality – Quantitative**

*Balance sheet items*

Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.

*Profit and loss items*

Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

(b) **Materiality – Qualitative**

Items are also material if:

- (i) they impact on the reputation of the Company;
- (ii) they involve a breach of legislation;
- (iii) they are outside the ordinary course of business;
- (iv) they could affect the Company's rights to its assets;
- (v) if accumulated they would trigger the quantitative tests; or
- (vi) they involve a contingent liability that would have a probable effect 10% or more on balance sheet or profit and loss items.

- (vii) They will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

(c) **Material Contracts**

Contracts will be considered material if:

- (i) they are outside the ordinary course of business;
- (ii) they contain exceptionally onerous provisions in the opinion of the Board;
- (iii) they impact on income or distribution in excess of the quantitative tests
- (iv) there is a likelihood that either party will default and the default may trigger any of the quantitative tests;
- (v) they are essential to the activities of the Company and cannot be replaced or cannot be replaced without an increase in cost of such a quantum as trigger any of the quantitative tests;
- (vi) they contain or trigger change of control provisions;
- (vii) they are between or for the benefit of related parties; or
- (viii) they otherwise trigger the quantitative tests.

Any matter which falls within the above guidelines is a matter which triggers the materiality threshold (“Materiality Threshold”).

**4. The Chairperson**

The chairperson is responsible for leadership of the board, for the efficient organisation and conduct of the board's function and for the briefing of all directors in relation to issues arising at board meetings. The chairperson is also responsible for shareholder communication and arranging board performance evaluation.

**5. Independent Directors**

Where the chairperson is not an independent director, the Company will appoint a lead independent director. The lead independent director will take over the role of the chairperson when the chairperson is unable to act in that capacity as a result of his or her lack of independence.

The independent directors, along with all directors, are responsible for the reviewing and challenging executive performance. They are also responsible for contributing to the development of strategy.

## **6. The Chief Executive Officer**

The chief executive officer is responsible for running the affairs of the Company under delegated authority from the board and to implement the policies and strategy set by the board. In carrying out his responsibilities the chief executive officer must report to the board in a timely manner and ensure all reports to the board present a true and fair view of the company's financial condition and operational results.

## **7. Role and Responsibility of Management**

The role of management is to support the chief executive officer and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the board.

Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the chief executive officer or if the matter concerns the chief executive officer then directly to the chairperson or the lead independent director, as appropriate.

## **POLICY AND PROCEDURE FOR SELECTION AND APPOINTMENT OF NEW DIRECTORS**

Directors are selected by reference to their background and experience which is relevant to the business needs of the Company. New directors are invited to join the Board by the Chairperson, who makes an invitation based on recommendations made by the Board functioning as a nomination committee, but always subject to final board approval.

## **CODE OF CONDUCT FOR DIRECTORS AND KEY EXECUTIVES**

All Executives will:

1. Actively promote the highest standards of ethics and integrity in carrying out their duties for the Company.
2. Disclose any actual or perceived conflicts of interest of a direct or indirect nature of which they become aware and which they believe could compromise in any way the reputation or performance of the Company.
3. Respect confidentiality of all information of a confidential nature which is acquired in the course of the Company's business and not disclose or make improper use of such confidential information to any person unless specific authorisation is given for disclosure or disclosure is legally mandated.
4. Deal with the Company's customers, suppliers, competitors and each other with the highest level of honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates.
5. Protect the assets of the Company to ensure availability for legitimate business purposes and ensure all corporate opportunities are enjoyed by the Company and that

no property, information or position belonging to the Company or opportunity arising from these are used for personal gain or to compete with the Company.

6. Report any breach of this code of conduct to the CFO, who will treat reports made in good faith of such violations with respect and in confidence.

This code of conduct is in addition to the Corporate Code of Conduct which has been adopted by the Board of the Company.

## **POLICY ON SECURITIES TRADING**

The Board has adopted a policy and procedure on dealing in the company's securities by directors, officer and employees which prohibits dealing in the company's securities when those persons possess inside information. It requires directors and employees to notify the chairperson before trading in Company securities.

## **AUDIT COMMITTEE CHARTER**

### **1. Composition of the audit committee**

- Committee to include at least two members, non-executive directors.
- At least one member to have significant, recent and relevant financial experience.

### **2. Role of the Audit Committee**

- To monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgments;
- to review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and

- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

### **3. Operations**

- The Committee meets at least twice a year, with further meetings on an as required basis.
- Minutes of all meetings of the committee are to be kept and a report of actions taken to be given at each subsequent meeting of the full Board of directors.
- Committee meetings will be governed by the same rules, as set out in the Company constitution as they apply to the meetings of the Board.

### **4. Resources**

- The Company to provide the Committee with sufficient resources to undertake its duties, including provision of educational information on accounting policies and other financial topics relevant to the Company and such other relevant materials requested by the Committee

### **5. Reporting to the Shareholders**

- The directors' report to contain a separate section that describes the role of the Committee and what action it has taken.
- The chairman of the audit committee to be present at the AGM to answer questions, through the chairman of the board.

### **6. Responsibilities**

- Responsibilities of the committee are as set out in the Audit Committee Responsibilities Calender attached as appendix A.

## Appendix A

### Audit Committee Responsibilities Calendar

Responsibility		When Performed Audit Committee Meetings				
		Q1	Q2	Q3	Q4	As needed
1.	The Committee will perform such other functions as assigned by law, the Company's constitution, or the Board of Directors.					X
2.	The Committee will have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee will have the authority, as it deems necessary or appropriate, to retain independent legal, accounting or other advisors.					X
3.	The Committee will meet quarterly or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.					X
4.	The agenda for Committee meetings will be prepared in consultation between the Committee chair (with input from the Committee members), Finance management and the independent auditor.		X		X	X
5.	Provide an open avenue of communication between the independent auditor, finance management and the Board of Directors. Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.					X
6.	Review and update the Audit Committee Charter and Responsibilities Calendar annually.				X	
7.	Provide an annual report that includes the Committee's review and discussion of matters with management and the independent auditor.				X	

8.	Appoint and replace the independent auditor and approve the terms on which the independent auditor is engaged.	X				
9.	Provide oversight of the independent auditor and resolve any disagreements between management and the independent auditor about financial reporting.		X		X	
10.	Establish and oversee a policy designating permissible services that the independent auditor may perform for the Company and providing for pre-approval of those services by the Committee.		X		X	X
11.	Confirm annually the independence of the independent auditor, and quarterly review the firm's non-audit services and related fees.			X		
12.	Verify the Committee consists of a minimum of two members who are financially literate, including at least one member who has financial sophistication.				X	
13.	Review the independence of each Committee member based on ASX Corporate Governance Guidelines.				X	
14.	Inquire of finance management and the independent auditor about significant risks or exposures and assess the steps management has taken to minimize such risk to the Company.					X
15.	Review with the independent auditor and Finance management the audit scope and plan, and coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, the effective use of audit resources, and the use of independent public accountants other than the appointed auditors of the company.	X				X
16.	Consider and review with Finance Management and the independent auditor:					
	(a) The Company's annual assessment of the effectiveness of its internal controls and the independent auditor's attestation and report about the Company's assessment. (Effective beginning fiscal year			X		

	2004)					
	(b) The adequacy of the Company's internal controls including computerized information system controls and security.			X		
	(c) Any related significant findings and recommendations of the independent accountants together with management's responses thereto.			X		
17.	Review with Finance management any significant changes to financial policies or standards.			X		
18.	Review with finance management and the independent auditor at the completion of the annual audit:		X	X		
	(a) The Company's annual financial statements and related footnotes.			X		X
	(b) The independent auditor's audit of the financial statements and its report thereon.			X		X
	(c) Any significant changes required in the independent auditor's audit plan.			X		X
	(d) Any serious difficulties or disputes with management encountered during the course of the audit.			X		X
	(e) Other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards.			X		X
19.	Review with Finance management and the independent auditor at least annually the Company's critical accounting policies.			X		X
20.	Review policies and procedures with respect to transactions between the Company and officers and directors, or affiliates of officers or directors, or transactions that are not a normal part of the Company's business.				X	
21.	Consider and review with Finance management and the independent auditor:					

	(a) Significant findings during the year and management's responses thereto.					X
	(b) Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.					X
	(c) Any changes required in planned scope of their audit plan.					X
22.	The Chairman of the Audit Committee will participate in a meeting with finance management and the independent auditor prior to earnings release.		X		X	
23.	Review the periodic reports of the Company with Finance management and the independent auditor prior to filing of the reports ASX.		X		X	
24.	In connection with each periodic report of the Company, review					
	(a) Management's disclosure to the Committee and the independent Principle 4 recommendation 1.1 of ASX Corporate Governance Guidelines.		X		X	
	(b) The contents of the Chief Executive Officer and the Chief Financial Officer certificates to be filed under the ASX Corporate Governance Guidelines		X		X	
25.	Review with the compliance officer legal and regulatory matters that may have a material impact on the financial statements, related Company compliance policies, and programs and reports received from regulators.		X		X	
26.	Develop and oversee procedures for (i) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and (ii) the confidential, anonymous submission of employee concerns regarding accounting or auditing matters				X	X
27.	Meet with the independent auditor in executive session to discuss any matters		X		X	

	that the Committee or the independent auditor believes should be discussed privately with the Audit Committee.					
28.	Meet with Finance management in executive sessions to discuss any matters that the Committee or Finance management believes should be discussed privately with the Audit Committee.					X

## **POLICY AND PROCEDURE FOR SELECTION OF EXTERNAL AUDITOR AND ROTATION OF AUDIT ENGAGEMENT PARTNERS**

### **1. Responsibility**

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Any appointment made by the Board must be ratified by Shareholders at the next annual general meeting of the Company.

### **2 Selection Criteria**

Mandatory criteria

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further the successful candidate must have arrangement in place for the rotation of the audit engagement partner on a regular basis.

Other criteria

Other than the mandatory criteria mentioned above, the Board may select an external auditor based on criteria relevant to the business of the Company such as experience in the industry in which the Company operates, references, cost and any other matters deemed relevant by the board.

### **3 Review**

The Board will review the performance of the external auditor on an annual basis.

## **POLICY AND PROCEDURES FOR COMPLIANCE WITH CONTINUOUS DISCLOSURE REQUIREMENTS**

Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It appoints an officer of the Company to be responsible for compliance. It is detailed in its application covering the following areas:

- appointment of the responsible officer and description of his/her duties
- identifies area of risk for the Company

- provides guidelines for:
  - identifying disclosure material
  - monitoring share price movements
- guide for use of trading halts
- guide for decision making process
- details on record keeping
- education of Board and management
- confidentiality
- release of disclosure material
- updating of compliance procedures

## **ARRANGEMENTS REGARDING COMMUNICATION WITH AND PARTICIPATION OF SHAREHOLDERS**

The Company maintains a website at [www.smsystems.com.au](http://www.smsystems.com.au) .

Under the heading “Investors” the Company makes the following information available on a regular and up to date basis:

- all company announcements (including notice of meetings and annual reports);
- top 20 shareholders report, broker research reports, company presentations, investor conference calls and relevant press
- financial statements for previous 5 years;

## **COMPANY’S RISK MANAGEMENT POLICY AND INTERNAL COMPLIANCE AND CONTROL SYSTEM**

### **Policy**

All members of the Board are responsible for risk management and oversight of internal controls. The day to day responsibility for risk management and internal controls rests with the Chief Executive Officer.

The Chief Executive Officer reports on these matters, using an exception reporting basis to the full Board, as part of his monthly written report to directors.

## **Strategy**

The internal control framework is subject of a comprehensive manual which covers financial, operational and organisational aspects of the Company.

The main areas of business risk include

- fluctuating exchange rates
- political and economic climate in its areas of operation
- continuous disclosure obligations

The Company has strategies in place for each of these risks.

## **PROCESS FOR PERFORMANCE EVALUATION OF THE BOARD, BOARD COMMITTEES, INDIVIDUAL DIRECTORS AND KEY EXECUTIVES**

The Chairman is responsible for conducting an annual review of board performance.

## **REMUNERATION COMMITTEE CHARTER**

### **1. Composition**

The Remuneration Committee is comprised of Michael Reveley (Chair), Toby Chandler and Sam Wright.

### **2. Role**

The Remuneration Committee's Role is to discharge the board's responsibilities in relation to remuneration of the Company's executives including share and benefit plans.

### **3. Operations**

The committee meets at least twice a year and otherwise as required minutes of all meetings of the committee are to be kept and a report of actions taken to be given at each subsequent meeting of the full board of directors. Committee meetings will be governed by the same rules as set out in the Company's constitution, as they apply to meetings of the board.

### **4. Responsibilities**

The responsibilities and functions of the Remuneration Committee are as follows:

- review the competitiveness of the Company's executive compensation programs to ensure:
  - (a) the attraction and retention of corporate officers;

- (b) the motivation of corporate officers to achieve the Company's business objectives; and
- (c) to align the interest of key leadership with the long-term interests of the Company's shareholders.
- review trends in management compensation, oversee the development of new compensation plans and, when necessary, approve the revision of existing plans.
- review the performance of executive management.
- review and approve chairman and chief executive officer goals and objectives, evaluate Chairman and chief executive officer performance in light of these corporate objectives, and set Chairman and chief executive officer compensation levels consistent with company philosophy.
- approve the salaries, bonus and other compensation for all senior executives, the Committee will recommend appropriate salary, bonus and other compensation to the Board for approval.
- review and approve compensation packages for new corporate officers and termination packages for corporate officers as requested by management.
- review and approve the awards made under any executive officer bonus plan, and provide an appropriate report to the Board.
- review and make recommendations concerning long-term incentive compensation plans, including the use of share options and other equity-based plans. Except as otherwise delegated by the Board, the Committee will act on behalf of the Board as the "Committee" established to administer equity-based and employee benefit plans, and as such will discharge any responsibilities imposed on the Committee under those plans, including making and authorising grants, in accordance with the terms of those plans.
- review periodic reports from management on matters relating to the Company's personnel appointments and practices.

## **CORPORATE CODE OF CONDUCT**

A code of conduct has been adopted by all executives. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others.