

# **POLICY FOR SELECTION AND REMUNERATION OF NON EXECUTIVE DIRECTORS**

## **1. PURPOSE AND SCOPE**

Clause 13.5 of the Company's Constitution authorizes the Directors to at any time appoint any person to be Director, either to fill a casual vacancy or as addition to the existing directors. This procedure has been adopted by the Board to assist the Chair and the Board of Directors ("the Board") in the exercise of their responsibilities.

The Company sees the involvement of independent non-executive directors on the Board as an essential element of proper corporate governance. The Company believes that:

(a) the purpose of corporate governance, to govern the enterprise and render it accountable to its shareholders and to its stakeholders, cannot be achieved unless management and the informed independent supervision of management are separated. Providing this supervision is a key function of the non-executive directors on a board. On the occasions in the corporate process when the interests of management and shareholders may compete, non-executive directors should have a balancing role.

(b) to fulfil their supervisory role, it is important that non-executive directors bring to the task independence of mind and a well-developed understanding of corporate and business processes. These qualities will most often be found in people who have had a considerable amount of experience in business and industry, or market specific knowledge.

(c) the presence of experienced, vigorous and genuinely independent non-executive directors, is one of the most important and effective safeguards against harm in a free-enterprise system. Investors will not have confidence in companies or the capital markets, unless they trust the governance structure and culture of companies and markets. Markets need to be properly informed to operate efficiently. In the same way the governance structure of a company needs to provide non-executive directors with the proper information they need to perform their task or the means of acquiring this information.

(d) given the integral role that independent non-executive directors play in corporate governance arrangements, it is essential that the office of a non-executive director remains attractive to experienced and skilled individuals. It is in the interests of companies, shareholders and the capital markets that non-executive directors are remunerated appropriately. Although non-executive directors should clearly be accountable, the role should not be overburdened with excessive or unreasonable legal liabilities and other risks which discourage competent individuals from contributing to keeping corporate processes open, prudent and trustworthy.

(e) the Company will select non-executive directors based on appropriate and objective criteria which will vary from time to time depending on the requirements of the Company and the skills and experience of existing Board members.

## **2. APPLICABILITY**

This policy is applicable to the SDL Board and Chairman.

## **3. RESPONSIBILITY AND ACCOUNTABILITY**

The Chairman is responsible for ensuring this policy is adhered to.

## **4. NUMBER OF BOARD DIRECTORSHIPS**

No person should hold more than five equivalent directorships. The position as chair of a board is taken to be the equivalent of two directorships for this purpose.

## **5. REMUNERATION OF NON-EXECUTIVE DIRECTORS**

In accordance with the resolution passed at the Company's annual general meeting on 28 November, 2008, (a) the maximum aggregate amount of remuneration payable to the Company's non-executive directors is fixed at \$600,000 (this fee pool includes superannuation entitlements if and when applicable) and (b) future remuneration of non-executive Directors shall comprise cash-based payments with no entitlement to options.

The Company is of the view that individual non-executive director remuneration should reflect the duties, responsibilities and risks of the role in a reasonable manner. This is to ensure that appropriately experienced individuals are available for election to such positions. The Company recognises that the risks and responsibilities of all directors have increased significantly due to legislation, court decisions, the policies and actions of regulators and the growing, but often erroneous, public expectations and understanding of directors' roles.

In accordance with ASX Listing Rule 10.17.2, fees payable to non-executive directors must be fixed sums. This means that they may not be calculated as commissions on, or a percentage of, operating revenue.

In accordance with the undertaking given by the Chairman at the Company's annual general meeting on 28 November, 2008, Non-Executive Directors will not be permitted to participate in incentive schemes, including but not limited to, option schemes.

## 6. SELECTION OF DIRECTORS

The Board shall, in selecting new Non-Executive Directors,:

- assess the current Board's skills and qualities;
- give consideration to the skills regarded as important to be represented on the Board, namely: -
  - experience as a Chief Executive;
  - international business experience;
  - financial experience;
  - experience in the iron ore industry;
  - marketing experience;
  - legal and regulatory experience; and
  - corporate governance and risk management experience.
- assess the future needs of the business;
- develop selection criteria for potential Board candidate(s); these may include, among other things, knowledge, experience, skills, expertise, integrity, diversity, ability to make independent analytical inquiries, understanding of the Company's business environment, willingness to devote adequate time and effort to the perceived needs of the Board;
- consider recommendations from shareholders, management and others as it deems appropriate;
- use, if considered desirable, the services of an independent executive search firm to assess the appropriateness of candidates and/or to provide or supplement the candidate list;
- evaluate the final potential candidates and in particular the extent to which potential board candidates are (a) likely to work constructively with the existing directors, (b) contribute to the overall effectiveness of the Board and (c) safeguard the interests of the Company and avoid conflicts of interest;
- consider whether the potential Board candidate is likely to be appointed to any Board committees;
- advise potential Board candidates of the Company's policy regarding its expectations of directors to ensure that candidates are fully informed of such expectations.

The Board shall:

- prepare, examine and review a list of potential Board candidates; and
- authorise the Chairman to approach the desired candidate(s) and provide the Company's draft terms of appointment for review;
- interview the final recommended candidate(s); and
- appoint, if the Board so determines, the final recommended candidate to the Board in accordance with the Company's Constitution and on the terms of the appointment agreed with the potential Board candidate.

The Company's Constitution provides that a director may not hold office for a continuous period in excess of 3 years or past the third annual general meeting following the director's appointment without submitting for re-election. Retiring directors are subject to the selection and appointment procedures set out in the Constitution of the Company, the ASX Listing Rules and the Corporations Act.

The Board (excluding the retiring director(s)) shall, at least five months before the date of an annual general meeting at which a director is scheduled to retire:

- examine and review the matter;

- authorise the Chairman to approach the retiring director(s) to convey the Board's views (if any) concerning the proposed re-election of the retiring director(s) at the next annual general meeting;
- the Company Secretary shall make the appropriate arrangements in accordance with the Constitution of the Company, the ASX Listing Rules and the Corporations Act in respect of the views expressed by the Board concerning the proposed re-election of retiring director(s); and
- if the Board does not support the re-election of the retiring director(s) at the next annual general meeting, instruct the Company Secretary to advise the relevant retiring director(s) accordingly.

## **7. AUTHORITY LIMITS**

Standard approval and authorisation procedures apply as appropriate.