

# SDI Limited

ABN: 27 008 075 581

## Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to refine and improve the governance framework and practices in place to ensure they meet the interests of shareholders. SDI Limited ("SDI") substantially complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3<sup>rd</sup> Edition (the Principles). This Corporate Governance Statement discloses the extent to which SDI has followed the Recommendations set out in the Principles (the "ASX Recommendations") for the year ended 30 June 2018.

Copies of SDI's Corporate Governance Charter, this Corporate Governance Statement and key corporate governance policies or summaries are available in the Corporate Governance section of SDI's website at [www.sdi.com.au/au/corporate-governance/](http://www.sdi.com.au/au/corporate-governance/).

### 1: Lay Solid Foundations for Management and Oversight

#### Role of the Chairman

The Chairman of SDI's Board of Directors (the "Board") is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functions.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and between Board and management.

#### Role of the Board and Management

The Board is responsible for the corporate governance of SDI. The Board provides strategic guidance for SDI and effective oversight of management. The Board guides and monitors the business and affairs of SDI on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board has delegated responsibility for day-to-day management of SDI to the Managing Director. The responsibilities expressly reserved to the Board and the responsibilities delegated to management are set out in detail in SDI's Corporate Governance Charter.

#### Role of Committees of the Board

The Committees of the Board oversee various areas and act by examining relevant matters and making recommendations to the Board. Currently there are two committees of the Board: the Audit Committee and the Remuneration Committee. Summaries of the roles and responsibilities of each of the current committees are provided in SDI's Corporate Governance Charter. Details of Directors' attendances at meetings of the committees are shown in the Directors' Report contained in SDI's Annual Report.

The Board retains the ultimate oversight and decision-making power in respect of the matters so delegated.

#### Role of Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The Company Secretary is responsible for developing and maintaining the information systems and processes that enable the Board to fulfil its role. The Company Secretary is also responsible to the Board for ensuring that Board procedures are complied with and advising the Board on governance matters.

All Directors have access to the Company Secretary for advice and services. Independent advisory services are retained by the Company Secretary at the request of the Board or Board committees.

The Board appoints and removes the Company Secretary.

## **Election and Re-election of Directors & Appointment of Executives**

SDI undertakes appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a Director; and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

SDI has a formal written appointment in place with each of its non-executive Directors, except in relation to SDI's non-executive Director & Chairman and SDI's Executive Directors (no formal written appointment is in place in relation to these Directors because of the long-standing nature of these appointments and the trust that exists between SDI and these Directors). The terms of these written appointments are summarised in the Corporate Governance Charter.

During the year ended 30 June 2018, SDI had written agreements with most executives setting out the terms of their appointment.

However, this was not the case for all executives. Some executive appointments are based on a "hand shake" and, because of the trust that exists between SDI and those executives, SDI has not found it necessary for long standing executives to document their appointments in writing.

## **Diversity Policy**

SDI has a Diversity Policy which is available in the Corporate Governance section of SDI's website.

The Diversity Policy includes requirements for the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and SDI's progress in achieving them.

The Board has set the following measurable objectives.

SDI seeks to improve, to the extent that it is practicable and appropriate, the representation of women:

- in the SDI Group's total workforce
- in management (defined as managers that report directly to the Managing Director), and
- on the Board

The Board assesses annually its progress in achieving these objectives, by comparing last year's percentage representation of women in the above categories with this year's percentage. As at 30 June 2018, women represented:

- 58% of the SDI Group's total workforce (59% last year)
- 30% of management (30% last year), and
- one position on the Board (there was one last year)

## **Evaluation of the Board, its Committees, Directors and Senior Executives**

Performance evaluations for independent non-executive Directors, executive Directors and Senior Executives take place at least annually in compliance with an established evaluation process. Additional detail is set out in SDI's Corporate Governance Charter.

All of the above performance evaluations have taken place for the year ended 30 June 2018.

There was no formal evaluation process in relation to the non-executive Chairman, the Board or its Committees during the year ended 30 June 2018. Given SDI's relatively small size, there is an informal approach to the evaluation of the Chairman, the Board and its Committees, which is set out in SDI's Corporate Governance Charter.

## **2: Structure the Board to add Value**

The Board's policy is that the Board needs to have an appropriate mix of skills, knowledge, experience, expertise, independence and diversity to be well equipped to help SDI navigate the range of challenges SDI faces.

The current Board consists of four independent non-executive Directors, one non-executive Director & Chairman and two executive Directors. The names of the members of the Board are set out below:

- Dr Geoffrey Macdonald Knight is an independent non-executive Director: appointed 2 August 2013;
- Mr Gerald Allan Bullon is an independent non-executive Director: appointed 2 August 2013;
- Mr Cameron Neil Allen is an independent non-executive Director: appointed 4 October 2013;
- Mr Gerard Desmond Kennedy is an independent non-executive Director: appointed 4 October 2013;

- Mr Jeffery James Cheetham is a non-executive Director and the Chairman: appointed 27 June 1985;
- Ms Samantha Jane Cheetham is an executive Director: appointed 17 December 1999;
- Mr John Joseph Slaviero is an executive Director and the Company Secretary: appointed 4 October 2013 and 2 July 2001 respectively;
- Ms Pamela Joy Cheetham is an alternate Director for Jeffery James Cheetham: appointed 16 August 1994.

Details of the Board members' experience, expertise and qualifications are set out in the Directors' Report within SDI's Annual Report.

### **Composition of the Board**

The Board's composition is determined based on criteria set out below.

The Board seeks to ensure that:

- At any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of SDI and Directors with an external or fresh perspective;
- There is a sufficient number of Directors to serve on Board committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities; and
- The size of the Board is appropriate to facilitate effective discussion and efficient decision-making.

Given the relatively small size of SDI, SDI has not disclosed, for the year ended 30 June 2018, a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership. Nevertheless, SDI has informally considered the mix of skills, diversity and experience that the Board currently has and is very comfortable with that mix.

In accordance with the ASX Listing Rules, SDI must hold an election of Directors each year.

### **Board Committees**

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established the following Board committees:

- **Audit Committee:** this Committee oversees and reviews the financial reporting and audit process, the system of internal control and management of financial risks, risk management, the maintenance of audit independence and the appointment of external auditors.
- **Remuneration Committee:** this Committee reviews and makes recommendations on remuneration strategy, policies and practices applicable to the Key Management Personnel (KMP) and the Executive Directors with a particular focus on performance-based remuneration that reflects increased shareholder value through the achievement of agreed organisational goals.

SDI has a small Board (seven Directors and an alternate Director) and, given SDI's relatively small size, it is neither practical nor efficient to have a Nomination Committee. It does not have one as such. The Board fulfils the role of the Nomination Committee. The Board employs written processes to address succession issues relating to members of the Board, including the Managing Director, and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. The Board's responsibilities in this context are set out in detail in SDI's Corporate Governance Charter.

Both the Audit Committee and the Remuneration Committee have established charters and operating procedures in place, which are reviewed on a regular basis. The Board may establish other committees from time to time to deal with matters of special importance. The Committees have access to SDI's executives and management as well as independent advice. Copies of the minutes of each committee meeting are made available to the full Board, and the Chairman of each committee provides an update on the outcomes at the Board meeting that immediately follows the committee meeting.

### **Independent Decision-making**

The Board recognises the important contribution independent Directors make to good corporate governance. All Directors, whether independent or not, are required to act in the best interests of SDI and to exercise unfettered and independent judgment.

The Board has adopted specific principles in relation to Directors' independence and considers the following, at least annually, when determining if a Director is independent:

Whether the Director:

- Is employed, or has previously been employed in an executive capacity by SDI or any of its child entities, and there has not been a period of at least three years between ceasing such employment and serving on the Board
- Is, or has been within the last three years, a partner, director or senior employee of a provider of material professional services to SDI or any of its child entities
- Is, or has been within the last three years, in a material business relationship (e.g. as a supplier or customer) with SDI or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship
- Is a substantial security holder of SDI or an officer of, or otherwise associated with, a substantial security holder of SDI
- Has a material contractual relationship with SDI or its child entities other than as a director
- Has close family ties with any person who falls within any of the categories described above
- Has been a director of SDI for such a period that his or her independence may have been compromised

Annually:

- each independent non-executive Director of SDI completes an Independence Questionnaire, which questions the Directors in relation to the above matters, and
- the Board assesses their responses to determine whether the Board considers the Directors to be independent.

Based on of the above process, the Board is of the view that each independent non-executive Director of SDI is independent.

The non-executive Director & Chairman is not an independent Director, as SDI's size is relatively small, and SDI's Chairman is chosen based on their experience, expertise and background in the industry to enhance SDI's future strategic direction. The Chairman ceased being the Managing Director of SDI on 1 July 2016.

### **Induction and Professional Development**

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on SDI's finances, strategy, operations, risk management, governance framework and key developments in SDI and the industry and environment in which it operates. The induction process is set out in detail in SDI's Corporate Governance Charter.

Legal, governance and accounting updates are periodically given to the Board. Directors are also able to attend professional development courses should they wish to.

### **Access to Information**

The Board is provided with the information it needs to discharge its responsibilities effectively and all Directors have complete access to management through the Chairman, Managing Director or Company Secretary at any time.

In certain circumstances, each Director has the right to seek independent professional advice at SDI's expense, within specified limits, or with the prior approval of the Chairman.

## **3: Promote Ethical and Responsible Decision-making**

### **Code of Conduct**

The Board acknowledges and emphasises the importance of all Directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

SDI has developed an Employee Handbook, which is communicated to all directors, executives and employees at the beginning of, and during, their appointment or employment. The Employee Handbook contains many areas that would normally be found in a Code of Conduct, including:

- Conflicts of interest
- Protecting company property
- Ensuring workplace health and safety
- Alcohol and drugs
- Appropriate use of computers, email and the internet
- Keeping information confidential
- Privacy

- Compliance with SDI policies
- Legislative compliance

SDI has also established the following Company policies.

- Whistle-blowing Protection Policy
- Complaints Handling Policy
- Share Trading Policy
- Diversity Policy
- Risk Management Policy
- Privacy and Security Policy

Copies of these policies are available on SDI's website at: [www.sdi.com.au/au/corporate-governance/](http://www.sdi.com.au/au/corporate-governance/)

## 4: Safeguard Integrity in Financial Reporting

### Audit Committee

SDI has a formally constituted Audit Committee. The committee has four members and comprises only independent non-executive Directors. The committee Chairman is an independent Director who is appropriately qualified and financially literate and who is not also Chairman of the Board.

The Audit Committee Charter is detailed in the Corporate Governance Charter. The committee assists the Board in fulfilling its corporate governance responsibilities in regard to:

- the integrity of financial reporting
- compliance with legal and regulatory obligations
- risk management, in particular:
  - monitoring, reviewing & measuring the effectiveness and performance of SDI's risk management framework
  - reporting to the Board regarding SDI's key strategic, financial, operational and compliance risks
- the effectiveness of SDI's internal control framework
- oversight of the independence of the external auditors

The names, experience and qualifications of those appointed to the Audit Committee, their attendance at meetings of the committee and the number of times the Committee met throughout the year are included in the Directors' Report within SDI's Annual Report.

The Audit Committee reports to the full Board after every meeting on all matters relevant to the committee's roles and responsibilities.

Before the Board approves SDI's reports for each financial period, the Managing Director and the Chief Operating Officer/Chief Financial Officer declare to the Board that:

- in their opinion:
  - the financial records of SDI have been properly maintained and the reports comply with the appropriate accounting standards
  - SDI's reports present a true and fair view of the financial position and performance of SDI, and
- their opinion has been formed based on a sound system of risk management and internal control which is operating effectively.

### External Auditor

The Audit Committee oversees the relationship with the external auditor. In accordance with the *Corporations Act 2001*, the lead Audit Partner on the audit is required to rotate at the completion of a 5 year term.

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

## 5: Make Timely and Balanced Disclosure

SDI has established procedures to ensure compliance with the disclosure requirements of the ASX Listing Rules, to ensure timely and balanced disclosures of all material matters concerning SDI, and to ensure that all investors have access to information on SDI's financial performance.

These procedures include identification of matters that may have a material effect on the price on SDI's securities, notifying them to the ASX, posting relevant information on SDI's website and issuing media releases.

SDI did not have a written policy in relation to its continuous disclosure obligations for the year ended 30 June 2018. Given the relatively small size of SDI, SDI believes that the procedures mentioned above are adequate for the time being.

SDI's Annual Report includes relevant information about the operations of SDI during the year, key financial information, changes in the state of affairs and indications of future developments. The Annual Reports for the current year and for previous years are available under the Investor Information section of SDI's website at: [www.sdi.com.au/au/company/investor-information/](http://www.sdi.com.au/au/company/investor-information/).

The half year and full year financial results are announced to the ASX and are available to shareholders via SDI and ASX websites.

All announcements made to the market, and related information (including presentations to investors and information provided to analysts or the media during briefings) are made available to all shareholders under the Investor Information section of SDI's website after they are released to the ASX. All ASX announcements, media releases and financial information are available on SDI's website within one day of public release.

## 6: Respect the Rights of Shareholders

SDI has provided information about itself and its governance to its shareholders via its website.

The Company Secretary has been nominated as the person responsible for communications with the ASX.

All Executive Management have an ongoing obligation to advise the Company Secretary of any material non-public information which may need to be communicated to the market.

SDI has procedures in place that promote effective communication with shareholders. SDI has designed and implemented a simple program to facilitate effective two-way communication with shareholders:

- SDI sends a newsletter to shareholders every six months
- SDI makes all ASX announcements available via its website. In addition, shareholders who are registered receive email notification of ASX announcements.
- Shareholders are able to communicate with SDI by using its general email address: [info@sdi.com.au](mailto:info@sdi.com.au)
- When relevant, investor relations issues are raised and discussed at Board meetings

The Notice of Annual General Meeting (AGM) will be provided to all shareholders and posted on SDI's website. Notices for general meetings and other communications with shareholders are drafted to ensure that they are honest, accurate and not misleading and that the nature of the business of the meeting is clearly stated and explained where necessary.

SDI's policy and processes for facilitating and encouraging participation at meetings of SDI's shareholders are set out below:

- SDI encourages full participation by shareholders at the AGM to ensure a high level of Director accountability to shareholders and shareholder identification with SDI's strategy and goals.
- The AGM provides an opportunity for shareholders to hear the Chairman and Managing Director provide updates on SDI's performance, to ask questions of the Board and its Auditors and to vote on resolutions being put before the meeting.

For shareholders unable to attend, an AGM question form will accompany the Notice of Meeting, giving shareholders

the opportunity to forward questions and comments to SDI or the external auditor prior to the AGM.

SDI gives shareholders the option of receiving and sending communications electronically. In particular:

- SDI's Share Register gives shareholders the option to receive all communications electronically
- Shareholders are able to communicate with SDI electronically via SDI's website.
- Shareholders are also able to communicate with the Share Register via the Share Register's website.

## **7: Recognise and Manage Risk**

The Board considers identification and management of key risks associated with the business as vital to maximising shareholder wealth.

The Board has issued a Risk Management Policy, which is available at the Corporate Governance Section of SDI's website.

The Board has introduced a Risk Management Framework, which includes an underlying Risk Management Process, which aims to ensure that SDI's key strategic, financial, operational and compliance risks are identified, managed and monitored. Internal 6 monthly Risk Workshops are central to this Framework.

SDI has a small Board and it is neither practical nor efficient to have a Risk Committee. It does not have one as such. The Board is responsible for overseeing the implementation, monitoring and review of SDI's Risk Management Framework. The Board has delegated certain responsibilities to SDI's Audit Committee, including:

- monitoring, reviewing & measuring the effectiveness and performance of SDI's Risk Management Framework
- reporting to the Board regarding SDI's key strategic, financial, operational and compliance risks
- reporting to the Board annually in relation to the effectiveness and performance of SDI's Risk Management Framework.

In particular, the Audit Committee is responsible for reviewing SDI's Risk Management Framework at least annually to satisfy itself that it continues to be sound, as expected by ASX Recommendation 7.2.

Additional details on SDI's approach to risk management are provided in SDI's Corporate Governance Charter.

The Audit Committee has reviewed SDI's risk management framework for the year ended 30 June 2018 and has satisfied itself that the framework continues to be sound.

### **Internal Audit Function**

SDI does not have an internal audit department due to its relatively small size. The Board and the Audit Committee have established policies and procedures on risk oversight and management. The Board's responsibilities regarding the internal audit function, and its processes for evaluating and continually improving its risk management and internal control processes, are set out in detail in SDI's Corporate Governance Charter.

### **Environmental and Corporate Social Responsibility**

One of the Board's objectives is to establish and maintain a culture of environmental and social responsibility through a committed, self-regulatory approach. Environmental and social responsibilities are intertwined with good governance principles and organisational codes of conduct.

With external guidance, the Board will facilitate the identification of issues and responsibilities relevant to SDI. The details of those responsibilities are set out in SDI's Corporate Governance Charter.

SDI is not aware of any material exposure to economic, environmental or social sustainability risks.

## **8: Remunerate Fairly and Responsibly**

### **Remuneration Committee**

SDI has a formally constituted Remuneration Committee. The committee comprises 5 members, 4 of whom are independent directors.

The Remuneration Committee is chaired by an independent director.

The role of the Remuneration Committee, as set out in detail in the Corporate Governance Charter, is to provide advice and assistance to the Board in fulfilling its responsibilities in respect of remuneration policies, performance enhancement systems and fair and responsible rewards for individual performance. The Charter and responsibilities of the Remuneration Committee are set out in detail in SDI's Corporate Governance Charter.

The names and qualifications of those appointed to the Remuneration Committee, their attendance at meetings of the Committee and the number of Committee meetings held during the year are included in the Directors' Report.

SDI's remuneration arrangements, as set out in the Remuneration Report in the Annual Report, are designed in such a way that they:

- motivate executives to pursue the long-term growth and success of SDI; and
- demonstrate a clear relationship between executives' performance and remuneration.

The remuneration arrangements, which set the terms and conditions for KMP were developed by the Remuneration Committee after seeking professional advice from independent consultants and were approved by the Board. The Remuneration Report separately discloses SDI's practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other executives in SDI's Annual Report.

All executives receive a base salary, superannuation, fringe benefits, performance incentives and retirement benefits. The Remuneration Committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed corporations and independent advice. The performance of executives is measured against criteria agreed half yearly which are based on individual KPI's and achievement of the Company's budget. These arrangements are designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

The Board expects that the remuneration structure implemented will result in SDI being able to attract and retain the best executives. It will also provide executives with the necessary incentives to work to grow long-term growth in shareholder value.

Further information about SDI's remuneration strategy and policies and their relationship to SDI's performance can be found in the Remuneration Report which forms part of the Directors' Report, together with details of the remuneration paid to KMP.

### **Equity Based Remunerations**

The Board has set policies on whether participants are permitted to enter into transactions which limit the economic risk of participating in equity based remuneration schemes. SDI does not permit such transactions.

This Corporate Governance Statement has been approved by the Board and is current as at 25 September 2018.