SDI Limited

ABN: 27 008 075 581

Corporate Governance Charter

1. Role and Responsibilities of the Board

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

The responsibilities that have been expressly reserved to the Board include:

- To oversee the company, including its control and accountability systems;
- To appoint and remove the Managing Director;
- To appoint the Chairman;
- To appoint and remove the Company Secretary;
- Where appropriate, to ratify the appointment and removal of senior executives;
- To provide input into and final approval of management's development of corporate strategy and performance objectives;
- To review, ratify and monitor systems of risk management and internal controls, codes of conduct and legal compliance;
- To monitor the performance of senior executives and implementation of strategy;
- To ensure appropriate resources are available to senior executives;
- To approve and monitor the progress of major capital expenditure, capital management and acquisitions and divestitures;
- To approve and monitor financial and other reporting; and
- To ensure the Company's compliance with the ASX's continuous disclosure requirements.

The Board also requires Directors generally to inform it of other appointments and commitments. Each Director must have time to carry out his or her duties, and be able to respond immediately to any urgent issues.

The Company has a small Board (seven Directors) and 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 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 below:

- Oversee the process for the nomination and selection of non-executive Directors to the Board;
- Review the Board succession plans;
- Oversee induction programs for non-executive Directors;
- Assesse the necessary and desirable competencies of Board members;
- Assess the requirements for non-executive Directors;
- Whether they are meeting those requirements;
- Evaluate its own performance;
- Recommend the election, re-election and removal of Directors;
- Evaluate skills, experience and expertise of a candidate, before a candidate is recommended for appointment;
- Establish and monitor strategies on gender diversity for the Company; and
- Ensure there are plans in place to manage the succession of the Managing Director and other senior

executives.

The Company does not have a separate Risk Committee due to the size of the Board. The Board fulfils the role of the Risk Committee.

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.

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.

2. Roles and Responsibilities of Management

The Board of SDI considers itself to be the team which "sets the course" for the Company to follow. It then communicates the course to management which is expected to "sale the ship" on the course set for it.

The Board has delegated responsibility for day-to-day management of the Company to the Managing Director (MD) and other Key Management Personnel (KMP).

The Board expects its management team, which includes the MD, to manage the business of the company on a day-to-day basis. Management's responsibilities cover the following areas:

- Marketing and sales activities;
- Accounting and finance;
- Information technology;
- Production;
- Research and Development;
- Technical compliance requirements; and
- Establishing good trading policies.

3. Roles and responsibilities of each of the current Committees

The Committees of the Board are responsible for aspects of the operation of the Company 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.

3.1 Audit Committee

The Company has a formally constituted Audit Committee comprised of all independent non-executive Directors. The details and meeting attendances of each member of the Audit Committee are detailed in the Company's latest Annual Report.

The Audit Committee is a Committee of the Company's Board and it 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.

The Audit Committee meets with the external auditors at least twice per year to discuss the scope of the audit and issues arising from audit procedures, without the full Board and management in attendance.

3.1.1 Audit Committee Charter

<u>Overall Objective</u>

The Audit Committee will assist the Board in fulfilling its responsibilities by its oversight and review of:

- The financial reporting process;
- The system of internal control and management of financial risks;
- Risk management;
- The audit process;
- The maintenance of audit independence; and
- The appointment of external auditors.

In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management and the external auditors.

To perform his or her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company's businesses.

Authority

The Board authorises the Audit Committee within the scope of its responsibility to:

- Seek any information it requires from:

  - Any employee (and all employees are directed to co-operate with any request made by the Committee); and

  - External parties.
- Obtain outside legal or other professional advice.
- Ensure the attendance of company officers at meetings as appropriate.

Organisation

The Chairman of the Audit Committee will have financial expertise and be nominated by the Board from time to time (however, it cannot be and will not be the Chairman of the Board).

- Members will be appointed for a two (2) year term of office but are eligible for re-appointment.
- A quorum for any meeting will be two (2) members.
- The secretary of the Audit Committee will be the Company Secretary, or such other person as nominated by the Board.

Attendance at Meetings

- The Audit Committee will invite such other persons (including the Managing Director and COO/CFO) to its meeting, as it deems necessary.
- The external auditors will be invited to make presentations to the Audit Committee as appropriate, including in the absence of management.
- Meetings shall be held not less than two (2) times a year. Special meetings may be convened as required. The external auditors may request a meeting if they consider that it is necessary.
- The proceedings of all meetings will be minuted.

Responsibilities

The Audit Committee will:

- Review the external auditor's proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope;
- Review the performance of the external auditors;
- Have responsibility for the approval of audit fees on an annual basis, with due consideration to the scope of the audit required for the cost being quoted;
- Ensure the independence of the auditor is maintained by not allowing the external audit firm to:
  - Audit its own work;

- Act in a management or decision-making capacity on behalf of the Company;
- Exceed the annual audit fee by more than 1.5 times in any one year for non-audit services provided;
- Make recommendations to the Board regarding the reappointment or method of selection of the external auditors. This includes ensuring that the lead audit partner is rotated at least every five years and does not return to the audit for at least two years.

- Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis;
- Ensure that management responds, and monitor management's response, to reviews and recommendations of the external auditors regarding internal control systems and procedures;
- Carry our certain risk management responsibilities, as mentioned in Section 1 above.

3.2 Remuneration Committee

The Company has a formally constituted Remuneration Committee comprised of all independent Directors and the non-executive Chairman of the Board. The details and meeting attendances of each member of the Remuneration Committee are detailed in the company's latest Annual Report.

The role of the Remuneration Committee 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 responsibilities of the Remuneration Committee include a review of and recommendation to the Board on:

- the company's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for Directors.

Each member of the Remuneration Committee:

- is familiar with the legal and regulatory disclosure requirements in relation to remuneration; and
- has adequate knowledge of executive remuneration issues, including executive retention and termination policies and short term and long term incentive arrangements.

The Committee's objectives in designing remuneration policies are:

- To motivate Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework; and
- To demonstrate a clear relationship between key executive performance and remuneration.

Non-executive Directors do not receive options, bonus payments or retirement benefits, other than statutory superannuation. Information on Directors' and executive remunerations is set out in SDI's Annual Report.

Shareholders approve the total maximum remuneration which is payable to non-executive Directors. This amount is apportioned between the Directors as they determine. Non-executive Directors are paid a fixed fee.

3.2.1 Remuneration Charter

<u>Overall Objective</u>

The Remuneration Committee will assist the Board in fulfilling its responsibilities as below:

- To provide a report on an annual basis to the shareholders on behalf of the Board setting out the total remuneration of senior executives and Directors including, share options, superannuation provisions, contracts of service and any compensation commitments on early terminations;
- To objectively establish the remuneration of Directors;
- To provide contemporary packages necessary to achieve the organisation goals;

- To determine where to position the Company's pay policy and practices for Directors relative to other companies in the market place;
- To review the employment contract, performance and remuneration arrangements of the Managing Director; and
- To review all shares/options and executive incentive schemes.

The Committee reviews and makes recommendations on remuneration strategy, policies and practices applicable to the non-executive Directors and the Managing Director with a particular focus on performance-based remuneration that reflects increased shareholder value through the achievement of agreed organisational goals.

Meetings

- At least one meeting per year will be held;
- A quorum for a meeting is three members;
- Minutes of the meeting with be recorded; and
- The Chairman of the meeting may request the attendance of management and any external advisors.

Remuneration of Executives

The Company in remunerating its employees regularly assesses its market position in regard to the remuneration mix and the level of remuneration.

Share and Option Plans

The Employee Share Plan and the Executive Share Option Plan are available on the Company's web site.

4. Internal Audit Function

The Company does not have an internal audit department due to its relatively small size.

The Board and the Audit Committee have established policies on risk oversight and management. In order to carry out this Internal Audit function, the Audit Committee:

- reviews the financial reporting process of the Company on behalf of the Board and reports the results of its activities to the Board;
- discusses with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the policies and procedures of the Company to assess, monitor and manage business risk, and any legal, ethical and compliance programs;
- reviews with the external auditor any audit problems or difficulties and the response of management;
- receives reports from the external auditor on the critical policies and practices of the Company;
- makes recommendations to the Board on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of the effectiveness, and independence of the external auditors;
- reviews and assesses the independence of the external auditor;
- reviews and discusses with the Board any ASX press releases, the half-year financial report (Appendix 4D), Appendix 4E and other reports required to be lodged with the ASX, prior to the filing of these documents with the ASX; and
- establishes procedures for the receipt, retention and treatment of complaints received by the Company (if any) regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding accounting or auditing matters.

The Board assesses the effectiveness of the Audit Committee’s management of risk.

Before the Board approves the Company’s reports, the Managing Director and the Chief Financial Officer declare to the Board that

- in their opinion:

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

The systems of internal financial control have been determined by senior management of the Company and are designed to provide reasonable, but not absolute protection against fraud, material misstatement or loss. These controls are intended to identify, in a timely manner, control issues that require attention of the Board or Audit Committee.

The Company has identified that the generic sources of risks include:

- Commercial and legal relationships between the organisation and other organisations, e.g. suppliers, subcontractors, lessees;
- Economic circumstances relating to the organisation, country, internationally, as well as factors contributing to those circumstances e.g. exchange rates;
- Human behaviour relating to both those involved and those not involved in the organisation;
- Natural events;
- Political circumstances including legislative changes and factors which may influence other sources of risk;
- Technology and technical issues, both internal and external to the organisation;
- Management activities and controls; and
- Individual activities;

5. 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.

The Board believes that the Company Secretary 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 policy and procedures are followed;
- Coordinating 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.

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 Secretaries.

6. Election and Re-election of Directors

The Board seeks to ensure that:

- At any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of the Company 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.

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

Prospective non-executive independent Directors are required to acknowledge to the Company, prior to their appointment or being submitted for election, that they will have sufficient time to meet the time requirements expected of them.

Selection Process

When a vacancy is anticipated or exists, suitable candidates are identified and reviewed by the Board. The Company 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. The Board assesses candidates against a wide range of criteria to determine if they will enhance the skills and performance of the Board. The criteria against which candidates are assessed include: professional experience, skills, expertise, personal qualities and background, credibility and ability to commit to all aspects of the Board program. Based on the discussion between members of the Board, a decision is made. A Board supported candidate is recommended for shareholder approval at the next Annual General Meeting. Prior to that Annual General Meeting the Board may make an appointment.

Assessing the independence of Directors

Each independent Director is required to advise the Board of any information, which may affect his or her independence.

The Board has adopted the following criteria for assessing the independence of Directors and considers 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

The Directors are permitted to seek independent professional advice at the Company's expense. However, the Directors are required to inform the COO/CFO of the professional's estimate of those expenses before engaging that professional.

The optimum Board size and mix of skills is determined by the Board to achieve maximum effectiveness based on the Company's current and anticipated future activities.

7. Induction process for Directors

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on the Company’s financial, strategic, operational and risk management position, the Company’s governance framework and key developments in the Company and the industry and environment in which it operates.

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

The prospective Directors are given a tour of the Company's plant at Bayswater and introduced to the Board of Directors and to the Management.

The incumbent Director is requested to:

- Visit the Company's website to view public announcements and other details about the Company;
- Disclose details which may affect his or her independence; and
- Confirm that he or she can read financial reports.

A new Director is provided with:

- A copy of the Corporate Governance Statement and the Corporate Governance Charter;
- A copy of the financial reports for the two financial years preceding appointment;
- A copy of the last auditors' review;
- A copy of Board minutes, Board Policy statements, and newsletters for the financial year preceding appointment;
- A copy of the Company's business plan and strategic plans of the Company;
- A timetable of Company meetings;
- A copy of the current Board structure, its Committees, the Board's achievements and the academic and experience details of the other Board members;
- Details of any current litigation the Company is involved in;
- Details of the Company's Directors and officers liability and insurance policy and cover details and a deed of indemnity from the Company;
- In the case of non-executive Directors, a formal letter of appointment. The letter of appointment will generally include:
    - Term of appointment;
    - Remuneration and expenses;
    - Superannuation arrangements;
    - Requirement to disclose Directors' interests and any matters which effect the Director's independence;
    - Trading policy governing dealings in securities (including any share qualifications) and related financial instruments by Directors, including notification requirements.
    - Access to independent professional advice;
    - Indemnity and insurance arrangements; and
    - Confidentiality and rights of access to corporate information.
- A copy of the Constitution of the Company;
- A copy of the Employee handbook and other Company policies; and
- The format and timing of Board papers provided for Board meetings.

Directors have full access to the executives, including the Company Secretary, for information purposes.

8. The Company's policy for Directors and Senior Executive evaluation

Performance evaluations for independent non-executive Directors, executive Directors and Senior Executives take place at least annually in compliance with an established evaluation process.

All executives and executive Directors are eligible to participate in an Executive Share Option Plan on invitation from the Board on the advice of the Managing Director.

There is no formal evaluation process in relation to the non-executive Chairman, the Board or its Committees, although there is an informal approach. Briefly:

- The Board evaluates its performance by the contribution and independent judgements it makes in the best interest of the company during each Board meeting.
- Board members always have an opportunity to raise any concerns they may have with the workings of the Board, any of its Committees or the Chairman. These concerns can be raised with the Board or with the Chairman.

All permanent employees other than Directors of the Company and their associates are eligible to participate in the Company's Employee Share Plan. Shares are offered from time to time based on the company achieving its targets and at the absolute discretion of the Board.

The remuneration policy, by incorporating a share option plan and short term incentive (STI) payments, strives to align the goals of the shareholders and the executives. This aim is achieved by a performance bonus payment (STI) based on the overall performance of the company and the issue of share options to executives to encourage the alignment of executive and shareholder wealth.

9. Environmental and corporate social responsibility

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

With external guidance, the Board will facilitate the identification of issues and responsibilities relevant to the Company, but not limited to, the following areas:

- Profitability, competitive practises and pricing;
- Governance/Ethics, corruption, bribery, political contributions;
- Employee issues, including:
  - Unreasonable working hours;
  - Wages and benefits (e.g. compliance with the law);
  - Freedom of association; and
  - Discrimination e.g. Individuals should be employed on the basis of skill rather than personal characteristics.
- Supplier issues, including:
  - Ethical standards;
  - Legal requirements;
  - Fair trading terms;
  - Environmental requirements;
  - Community involvement; and
  - Employment standards;
- Health and Safety, including:
  - Personal health;
  - Food and nutrition;
  - Factory ventilation;
  - Emergency evacuation;
  - Fire safety;
  - Use of chemicals; and
  - Ergonomics.
- Environmental Impact;
- Impacts on the host community;
- Regulatory compliance systems; and
- Identification of and discussions with stakeholders (one of the important aspects of stakeholder engagement is that stakeholders can be used to identify key environmental and social responsibilities issues that then need to be enacted within the entity).

10. The Responsibilities of Shareholders

Effective governance depends heavily on the willingness of the owners of an entity to behave like owners and to exercise their rights of ownership, to express their views to the Boards of Directors and to organize and exercise their shareholder franchise if they do not receive a satisfactory response. The shareholders as owners of the entity elect the Directors to run the entity on their behalf and hold them accountable for its progress. It is for the shareholders to call the Directors to account if they appear to be failing in their stewardship.

Institutional shareholders, because of their increasing influence by virtue of their size, should take an active interest in the governance of the Company and develop their own principles of good practice.

Shareholders have certain rights and obligations, which include the following:

- Shareholders should make themselves as informed as possible about the activities of the Company.
- Shareholders should see themselves as owners, not just investors. Their responsibility as shareholders increases with the size of their shareholding;
- Shareholders should have made a sufficient analysis to vote in an informed manner on all issues raised at general meetings. Where appropriate, reasons for voting against a motion should be made known to the Board beforehand;
- Shareholders (other than employee shareholders) should not involve themselves in the Company's day-to-day operations;
- Shareholders should take a positive interest in the composition of Boards of Directors with particular reference to:
    - Concentrations of decision-making power; and
    - The appointment of a core of independent Directors of appropriate calibre and experience.
- Shareholders should take a positive interest in the structure of the Board and, in particular, the appointment of appropriate Committees of the Board – especially the Audit Committee;
- Shareholders should take a positive interest in the performance of the Board and should exercise their votes on the election of Directors in an informed manner;
- Shareholders should take an informed interest in the election of auditors and should exercise their votes in an informed manner;
- Shareholders should take a positive interest in the auditor's report, the competence of the auditor and where appropriate should be prepared to ask questions of the auditor; and
- Shareholders should not seek to receive price-sensitive information, which is not available to the market generally.