



# Remuneration and Nomination Committee charter

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Drillsearch Energy Limited ABN 474844

## 1 Introduction

This is the Remuneration and Nomination Charter for Drillsearch Energy Limited (**DLS**). The charter governs the procedures of the Remuneration and Nomination Committee (**Committee**) and outlines the procedures and guidelines of nominating a candidate to the position of director on DLS's Board (**Board**).<sup>i</sup>

## 2 Remuneration and Nomination Committee

The Committee is a committee of the Board. In respect to nomination issues, the committee's primary purpose is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance by:

- assessing the skills and competencies required on the Board;
- from time to time assessing the extent to which the required skills are represented on the Board;
- establishing processes for the review of the performance of individual directors and the Board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the Board; and
- recommending the appointment and removal of directors.

In respect to remuneration issues, the Committee is also to provide the Board with sufficient information to facilitate informed decision making and to review and make recommendations to the Board in respect of:

- an executive remuneration and incentive policy;
- the remuneration of the managing director and any other executive director, the company secretary and all senior executives reporting directly to the managing director;
- an executive incentive plan;

- an equity based incentive plan;
- the remuneration of non-executive directors;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for non-executive directors, the managing director and any other executive director, the company secretary and all senior executives reporting directly to the managing director; and
- the disclosure of remuneration in DLS's public materials including ASX filings and the annual report.<sup>ii</sup>

Further, the Committee is entitled to direct any special investigation that the Committee considers appropriate and to consult any independent expert that the Committee considers appropriate to carry out its duties. DLS bears the costs of any such investigation or consultations.

The Committee is entitled to call on and use any employee of DLS to the extent that the Committee considers appropriate to carry out the Committee's role and responsibilities.

## **2.1 Composition**

The Committee will consist of at least 3 directors one of whom will be the chair of the Board, and a majority of which are independent, non-executive directors.

The Committee will be chaired by the chair of the Board.

### **(a) Removal or resignation**

If a member of the Committee retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board will appoint the successor.

### **(b) Committee may invite**

The Committee, if considered appropriate, may invite any executive management team members or other individuals to attend meetings of the Committee.

### **(c) Secretary**

The company secretary will be the secretary of the Committee.

## **2.2 Meetings**

### **(a) Frequency**

The Committee will meet as frequently as required but not less than two times a year.

### **(b) Calling meeting and notice**

Any Committee members or the secretary may call a meeting of the Committee.

A notice of each meeting confirming the date, time, venue and agenda will be forwarded to each member of the Committee in the week prior to the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.

**(c) Advice**

The Committee may have access to employees of DLS and from appropriate external advisers. The Committee may meet with these external advisers without management being present.

**(d) Report to the Board**

The chair of the Committee, or delegate, will report to the Board following each meeting.

**(e) Minutes**

Minutes of proceedings and resolutions of Committee meetings will be kept by the secretary.

Minutes will be distributed to all Committee members and the chair of the Board, after the Committee chair has given their preliminary approval.

Minutes, agenda and supporting papers, will be made available to any director upon request to the secretary, providing no conflict of interest exists.

**(f) Quorum and voting**

A quorum will comprise any two independent non-executive director Committee members.

In the absence of the Committee chair or appointed delegate, the members will elect one of their number as chair for that meeting.

Each member will have one vote and the chair of the Committee will not have a second or casting vote.

### **3 Duties and responsibilities relating to nomination issues**

#### **3.1 Current Board**

**(a) Skill requirements**

The Committee will periodically assess the skills required to discharge the Board's duties, having regard to the strategic direction of DLS, and report the outcome of that assessment to the Board.

The Committee will, as and when it considers appropriate, but in any event whenever an existing non-executive director retires, assess the skills represented on the Board by the non-executive directors and determine whether those skills meet the required skills as identified.

**(b) Skill enhancement**

The Committee will make recommendations to the chair of the Board on means by which skill levels of existing non-executive directors can be enhanced.<sup>iii</sup>

## **3.2 New candidates**

### **(a) Candidate identification**

Having regard to the skills required and the skills represented, the Committee will implement a process for the identification of suitable candidates for appointment to the Board of non-executive directors.

In determining the process for the identification of suitable candidates, the Committee will ordinarily ensure that a search is undertaken by an appropriately qualified independent third party acting on a brief prepared by the Committee which identifies the skills sought.

The Committee will make recommendations to the Board on candidates it considers appropriate for appointment.

### **(b) Re-nomination of retiring non-executive directors**

The Committee will inform the Board of the names of non-executive directors who are retiring in accordance with the provisions of the DLS constitution and will make recommendations to the Board as to whether the Board should support the re-nomination of that retiring director.

In order to make these recommendations the Committee will review the retiring non-executive director's performance during the period in which the non-executive director has been a member of the Board. The Committee will conduct that review by whatever means it considers appropriate.

A member of the Committee will not participate in the review of his or her own performance.

## **3.3 Appointment of directors**

Once the Board, after reviewing the recommendations provided by the Committee, has decided to appoint a new candidate to non-executive director, DLS will provide the letter of appointment and relevant documents contained in **Annexure A** to the new non-executive director.

## **3.4 Induction procedure**

There are many issues, procedures and policies that a new non-executive director of DLS will need to be aware of and understand. Therefore, it is important for DLS to have an induction procedure. To assist a new non-executive director in his or her induction, DLS will follow the "New directors and executives - induction procedure" – **Annexure B**.

## **3.5 Disclosure<sup>iv</sup>**

In order to maintain transparency, the role of the Committee is to be fully and fairly reported. Consistent with the Disclosure Policy the Committee will review all public disclosures and statements concerning remuneration and nomination issues including disclosures in:

- ASX filings;
- the annual report; and
- press releases.

### **3.6 Notices of meeting**

The Committee will ensure that any notice of meeting containing a resolution for the election of a director is appropriately framed and includes information that investors might reasonably need in order to make an informed decision about the relevant candidates.<sup>v</sup>

## **4 Duties and responsibilities relating to remuneration issues**

In order to fulfil its responsibilities to the Board the Committee will:

### **4.1 Executive remuneration policy**

- review and make recommendations to the Board regarding DLS's policy for determining executive remuneration including, but not limited to, pension rights and compensation payments, and any amendments to that policy proposed from time to time by management;
- review the on-going appropriateness and relevance of the Executive Remuneration Policy and other executive benefit programs;
- consider whether to seek shareholder approval of the Executive Remuneration Policy;
- consider the continuous disclosure requirements that may be triggered by obligations under employment agreements with senior executives under ASX Listing Rules; and
- oversee the implementation of the remuneration policy within DLS.

### **4.2 Executive directors and senior management<sup>vi</sup>**

- consider and make recommendations to the Board on the entire specific remuneration for the managing director and any other executive director, (including base pay, incentive payments, equity awards, retirement rights, service contracts, termination payments) having regard to the Executive Remuneration Policy, and determine whether any shareholder approvals are required and that any equity-based executive remuneration is made in accordance with shareholder approvals,<sup>vii</sup> and
- review and make recommendations to the Board regarding the proposed remuneration (including incentive awards, equity awards and service contracts) for the company secretary and all senior executives reporting directly to the managing director.

### **4.3 Executive incentive plans**

- review and make recommendations to the Board regarding the design of all executive incentive plans; and

- review and make recommendations to the Board regarding the total proposed payments from each executive incentive plan.

#### **4.4 Equity based plans**

- review and make recommendations to the Board regarding the design of all equity based plans;
- keep all plans under review in the light of legislative, regulatory and market developments;
- for each equity based plan, determine each year whether awards will be made under that plan;
- review and make recommendations to the Board regarding total proposed awards under each plan having regard to the number of shares issued under the plan in relation to the existing capital of the company;
- in addition to considering awards to the company secretary or any senior executives reporting directly to the managing director, review and make recommendations to the Board regarding proposed awards under each plan on an individual basis for executives as required under the rules governing each plan or as determined by the Committee;
- review, make recommendations to the Board and keep under review performance hurdles for each equity based plan;
- ensure the terms of each plan prohibit entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements;
- ensure that shareholders are provided with meaningful information to permit them to determine whether to approve the plan including details of the full cost of the plan;<sup>viii</sup> and
- ensure the exercise of any entitlements under each plan are timed to coincide with any trading windows under any trading policy established.

#### **4.5 Termination payments**

- review and make recommendations to the Board regarding termination payments of the managing director, ensuring any termination payment is agreed in advance including detailed provision in case of early termination; and
- ensure there is to be no payment for termination for misconduct.

#### **4.6 Non-executive director remuneration<sup>ix</sup>**

- review and establish the level of remuneration for non-executive directors. The level of director remuneration is to be set so as to attract the best candidates for the Board while maintaining a level commensurate with Boards of similar size and type;
- where necessary recommend that the Board seek an increase in the amount of remuneration for non-executive directors approved by shareholders;

- the Committee may request management or external consultants to provide necessary information upon which the Board may make its determination.

#### **4.7 Disclosure**

In order to maintain remuneration transparency, both the levels and process of setting the remuneration for directors, the managing director, the chief financial officer and others senior executives are to be fully and fairly reported.

The following material should be included in the corporate governance statement in the annual report:

- the names of the members of the Committee and the attendance at meetings of the Committee;
- the existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors; and
- an explanation of any departure from Recommendations 8.1, 8.2 or 8.3 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

In addition, disclosure in the directors' report which forms part of the annual report is required for performance conditions including:

- a detailed summary of the performance conditions;
- an explanation of why the performance condition was chosen;
- a summary of the methods used in assessing whether the performance condition is satisfied; and
- explanation of why those methods were chosen.

Furthermore, if an element of remuneration consists of securities and that element is not dependent on the satisfaction of a performance condition, an explanation as to why there is no link between that element of remuneration and the company's performance is required. There must also be an explanation of the relative proportions of those elements of remuneration which are performance-based and those which are not.

Disclosure in the directors' report is also required with respect to:

- the value of options granted as part of remuneration packages, as at when they are granted, when they are exercised and if they lapse;
- the percentage of the value of the person's remuneration that consists of options;
- the duration of executive employment contracts, as well as the periods of notice required to terminate the contract and the termination payments provided for under contract;
- the relationship between the Executive Remuneration Policy and DLS's performance on shareholder returns in the current and previous four years.

The Remuneration and Nomination Committee charter and a summary of DLS's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes, should be made publicly available.<sup>x</sup>

In addition, if the directors consider that compliance with the accounting standards would result in the accounts not providing a “true and fair” view, they need to explain the reasons for this and provide information as to how they formed this view. The auditor will also be required to comment on the appropriateness of such additional disclosure.

The qualifications and experience of the company secretary must be disclosed in the annual report.

The amount paid to auditors for non-audit services will also need to be disclosed.

Consistent with the Disclosure Policy the Committee will review all public disclosures and statements concerning the matter the subject of this policy including disclosures in:

- ASX filings;
- the annual report; and
- press releases.

The Committee must ensure the disclosure of terms of reference of the Committee along with the composition of the Committee and other relevant facts such as comparisons with similar organisation’s director remuneration.

#### **4.8 Board costs**

The Committee must also supervise the reporting of the budget and operating costs for the Board (including the costs of travel, expense reimbursement, facilities hire) as well as the actual director remuneration information.

#### **4.8 Approvals**

Before implementing any of the following proposals the Board will ask the Committee to review the proposal and make a recommendation to the Board in relation to it:

- any change to the remuneration or contract terms of the managing director and any other executive director, the company secretary and all senior executives reporting directly to the managing director;
- the design of any new equity plan or executive cash-based incentive plan, or the amendment of any existing equity plan or executive cash-based incentive plan;
- the total level of award proposed from equity plans or executive cash-base incentive plans; and
- any termination payment to the managing director, any other executive director, the company secretary or any senior executive reporting directly to the managing director. A termination payment to any other departing executive must be reported to the Committee at its next meeting.

## **5 Evaluation process**

The Committee will review its performance and compliance with its terms of reference on an annual basis.

In addition, the Committee will be subject to a periodic comprehensive review that includes surveys of directors, committee members and other management.

## **6 Review**

The Committee will conduct an annual review of this charter to ensure that the charter continues to reflect the current processes and guidance utilised when assessing the appropriate remuneration of the directors and the senior executives. The Board will need to approve any amendments to this charter that stem from the review

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<sup>i</sup> Australian Stock Exchange (**ASX**) Corporate Governance Council, Corporate Governance Principles and Recommendations, Recommendation 2.4.

<sup>ii</sup> See ASIC Regulatory Guides 73 – Continuous disclosure obligations: infringement notices and 193, Notification of directors' interests in securities-listed companies.

<sup>iii</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Recommendation 2.5, Commentary and guidance.

<sup>iv</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, includes in the Guide to Reporting on Principle 2 the matters that should be included in the annual report.

<sup>v</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations contains commentary and guidance directing the Remuneration and Nomination Committee to Attachment A – "Guidelines for notices of meeting" while not compulsory it provides useful guidance as to the information usually required to enable investors to make an informed decision.

<sup>vi</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Box 8.1.

<sup>vii</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Recommendation 8.2.

<sup>viii</sup> AEOA, AICD and ASA, Executive Equity Plan Guidelines, February 2007.

<sup>ix</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Box 8.2.

<sup>x</sup> ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Guide to reporting on Principle 8.