



Nomination and Remuneration Committee Charter

23 July 2009

1 Introduction

The Nomination and Remuneration Committee's ("Committee") objective is to assist the Board of Macarthur Coal Limited ("Board") and its controlled entities ("Macarthur Coal") in fulfilling its responsibilities to shareholders by:

- ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors in accordance with the Corporations Act and corporate governance principles
- ensuring remuneration arrangements are equitable and transparent.

The responsibilities of the Committee include:

- **Board Performance and Director Selection:**
 - determining the skills and competencies necessary for an effective 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
 - recommending the appointment and removal of directors.
- **Remuneration:**

Making recommendations on:

 - an executive remuneration and incentive policy
 - the remuneration of the Chief Executive Officer and any other executive director and all senior management
 - an executive incentive plan
 - the remuneration of non-executive directors
 - recruitment, retention, performance measurement and termination policies and procedures for non-executive directors, the Chief Executive Officer and any other executive directors and all senior management
 - superannuation arrangements
 - the disclosure of remuneration in Macarthur Coal's external reports.

The Committee makes recommendations to the Board and does not have any power to commit the Board or management to the recommendations on Board Performance and Remuneration.

- **Salary Increases and Bonus Payments:**

Review and approve:

- salary increases and bonus payments for all direct reports to the CEO, and
- the quantum of salary increase and bonus payments for all staff.

In addition to the above, the Nomination & Remuneration Committee has the powers under clause 6.4 of the Delegation of Authority Policy.

The Board delegates the above powers pursuant to Rule 18.7 of Macarthur Coal Limited's constitution.

The Committee will provide a report to the Board outlining what it has approved.

2 Nomination and Remuneration Committee

2.1 Composition

The Committee will consist of three directors, a majority of which are non-executive directors. The Committee is to be chaired by an independent director.

2.1.1 Removal or resignation

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

2.1.2 Participation by Non Committee Members

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

2.1.3 Secretary

The Company Secretary will be the Secretary of the Committee.

2.2 Meetings

2.2.1 Frequency

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

2.2.2 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 Committee member together with relevant supporting papers.

2.2.3 Advice

The Committee has unlimited access to Macarthur Coal employees and appropriate external advisers. The Committee may meet with external advisers without management being present.

2.2.4 Report to the Board

The Chairman of the Committee or delegate reports to the Board following each meeting.

2.2.5 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 chairman of the Board after the Committee chairman has given preliminary approval. Minutes of Committee meetings will be tabled at a subsequent Board meeting for noting.

2.2.6 Quorum and voting

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

3 Duties and responsibilities

3.1 Board Performance and Director Selection

3.1.1 Current board

Skill requirements

Periodically the Committee will assess the skills required to discharge the Board's duties with regard to the strategic direction of Macarthur Coal 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 previously determined skills requirement.

Skill enhancement

The Committee will make recommendations to the Chairman of the Board regarding methods to enhance the skill levels of existing non-executive directors.

3.1.2 New candidates

Candidate identification

The Committee has adopted the process for the identification of suitable candidates for appointment to the Board, having regard to the skills required and the skills represented as outlined in **Annexure 4**.

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

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 constitution and will make recommendations to the Board as to whether the Board should support the re-nomination of the retiring director.

3.1.3 Appointment of directors

Once the Board, after reviewing the recommendations provided by the Committee, has decided to appoint a new candidate as a non-executive director, Macarthur Coal will provide the letter of appointment along the lines contained in **Annexure 1** to the new non-executive director.

3.1.4 Induction procedure

There are many issues, procedures and policies that a new non-executive director of Macarthur Coal will need to be aware of and understand. A New Director's Induction Procedure has been developed to assist with the induction of new directors and is set out in **Annexure 2**.

3.1.5 Evaluation process

A performance evaluation process applies to:

- the Board
- Board Committees
- individual directors.

The objective of this process is to ensure the satisfactory contribution of each director. The evaluation guidelines are detailed in **Annexure 3**, The Evaluation Process Applicable to Board, Board Committees and Individual Directors.

3.2 Remuneration

The Committee's responsibilities with respect to remuneration are as follows.

3.2.1 Executive remuneration policy

- review and make recommendations to the Board regarding Macarthur Coal's policy for determining executive remuneration and any proposed amendments
- review the on-going appropriateness and relevance of the executive remuneration policy and recommend amendments when considered appropriate
- consider whether to seek shareholder approval of the executive remuneration policy.

3.2.2 Executive directors and senior management

- consider and make recommendations to the Board on the remuneration for the Chief Executive Officer and other executive directors (including base pay, incentives, equity awards, retirement rights, service contracts) and determine whether any shareholder approvals are required
- review and if acceptable, approve proposed remuneration (including incentives, equity awards and service contracts) for direct reports to the CEO.

3.2.3 Executive incentive plans

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

3.2.4 Non-executive director remuneration

- review and establish the level of remuneration for non-executive directors. Director remuneration is to be set at a level commensurate with comparable companies and to attract the best candidates for the Board.
- where necessary recommend that the Board seek an increase in the remuneration of non-executive directors.

3.3 Salary Increases and Bonus Payments

3.3.1 Salary increases and bonus payments for all direct reports to the CEO

- Pursuant to a delegation of authority from the Board of Macarthur Coal Limited, the Committee has the power to review and approve all salary increases and bonus payments for all direct reports to the CEO.

3.3.2 Quantum of salary increases and bonus payments for all staff

- Pursuant to a delegation of authority from the Board of Macarthur Coal Limited, the Committee has the power to review and approve the quantum of salary increases and bonus payments for all staff.

4 Disclosure

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 matters that are subject of this policy including disclosures in:

- ASX announcements
- the annual report
- press releases.

The Committee is to 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.

5 Review

The Board will conduct an annual review of the Charter to ensure that the Charter remains consistent with the Board's objectives and responsibilities. The Board will need to approve any amendments to the Charter arising from the review.

6 Publication of the Charter

The Nomination and Remuneration Committee Charter is available to all directors and staff of the Company.

A copy of this Charter is to be placed on Macarthur Coal's website at [.macarthurcoal.com.au](http://macarthurcoal.com.au)

Version	Date Approved by Board
Initial Version	8 April 2004
Revision 1	20 July 2006
Revision 2	19 July 2007
Revision 3	23 July 2009

ANNEXURE 1

Letter of appointment of director

[Insert Date]

[Insert Addressee]

Dear [Insert Name]

Appointment as a director of Macarthur Coal Limited

I am delighted to confirm your appointment as a director of Macarthur Coal Limited. I believe that given your background and experience you will contribute significantly to the operation of the Board of Macarthur Coal.

The purpose of this letter is to set out the terms of your engagement as a director of Macarthur Coal and to provide information on the operations of the company and the role and responsibilities of the Board.

CONSTITUTION

Your appointment as director is governed by the Macarthur Coal constitution. Under the constitution your appointment will be until the annual general meeting (AGM) of Macarthur Coal which is scheduled for [insert date]. Your appointment as a director will be put to the AGM in [insert date] and when confirmed will be subject to shareholder approval as required in our constitution (this works out to be about every three years or so). I encourage you to make yourself familiar with the constitution, in particular, the rules relating to directors (rules 13 - 18).

A copy of the constitution is included in the induction pack that accompanies this letter.

ROLE OF DIRECTORS AND CORPORATE GOVERNANCE

As a director, your duties and obligations are in accordance with the *Corporations Act 2001 (Cth)*, and the Macarthur Coal constitution. The principal duties are also set out in the Directors Code of Conduct. Additional information on the role of directors is set out in the Board Charter.

Copies of both the Directors Code of Conduct and the Board Charter are also included in the induction pack that accompanies this letter.

The directors are responsible for the stewardship of Macarthur Coal. Corporate governance is regarded as a key priority and, to this end, you are encouraged to become familiar with the formal policies and charters also included in the induction pack.

MEETINGS

In general, the Board meets monthly. From time to time Board meetings need to be convened at short notice. Additionally, a visit to the Company's mining operations takes place every 12 months or as needed. Details of the meetings for the remainder of the year are included in the induction pack.

ACCESS TO INDEPENDENT ADVICE

If you believe that you require independent advice in relation to the performance of your duties as a director of Macarthur Coal, you have the right to seek legal and other professional advice with the prior approval of the Chairman. The costs reasonably incurred are reimbursable by Macarthur Coal. The advice may, at the discretion of the Chairman, be made available to the other directors.

BOARD COMMITTEES

The Board has the following committees:

- Audit and Risk Management Committee
- Nomination and Remuneration Committee
- Special Projects Committee

The Board will determine your committee appointments (if any) at the next Board meeting.

PARTICIPATION ON BOARDS OF MACARTHUR COAL'S SUBSIDIARY COMPANIES

Board members also serve as directors for some of Macarthur Coal's subsidiary companies. Please refer to the company structure chart (also included in the induction pack) for details of the subsidiary companies.

The business relating to subsidiary companies is generally incorporated into the business covered at the Macarthur Coal monthly Board meeting.

In order for your appointment to the subsidiary companies to be completed, please sign and date the consents to act as a director included with this letter and return them to Lisa Dalton, our company secretary.

DIRECTOR'S FEES

Directors fees are as follows:

- a base annual fee of \$45,000 per annum
- a Committee membership fee of \$10,000 per annum per Committee plus \$5,000 per Committee per annum if you are appointed Chairman of a Committee

The above amounts are inclusive of the compulsory superannuation guarantee charge. The fee is payable in cash on a monthly basis.

Directors remuneration also consists of 10,000 Macarthur Coal shares through the Macarthur Coal Non-Executive Director Share Plan. An offer to join this plan will be sent to you shortly.

The annual fee and amount of shares provided is reviewed periodically by the Nomination and Remuneration Committee, subject to the provision of the Corporations Act, the constitution and the Listing Rules.

It is important to note that the amount of remuneration, including all monetary and non-monetary components and termination entitlements, will be subject to disclosure obligations under the Corporations Act and the ASX Listing Rules.

REIMBURSEMENT OF EXPENSES

In addition to the annual fee, subject to the constitution and resolutions of shareholders, Macarthur Coal will reimburse you for all reasonable expenses properly incurred by you in the performance of your duties in connection with the business of Macarthur Coal. This will include reimbursement of business class fares should you be required to travel on company business.

DEEDS OF INDEMNITY & ACCESS AND DIRECTOR'S DISCLOSURE

Macarthur Coal also enters into deeds with its directors:

- (i) the first is a Deed of Indemnity, Access and Insurance which creates an obligation on Macarthur Coal to:
 - indemnify and maintain insurance in your favour with respect to certain liabilities which you may incur as a result of being a director (a copy of the current D&O policy terms is included in the induction pack),
 - maintain safe and secure Board papers for a period of 7 years from the date that you cease being a director, and
 - provide you with access to Board papers (created during the period of appointment as a director) for a period of 7 years from the date that you cease being a director.
- (ii) the second is a Deed of Disclosure. It is an ASX Listing Rule requirement that Macarthur Coal have arrangements in place to ensure that you disclose to it all information required for the purpose of compliance with ASX Listing Rule 3.19B. The deed sets out obligations on you to disclose that information together with obligations on Macarthur Coal to provide copies and maintain records of information lodged with the ASX.
- (iii) The proposed Deed of Indemnity, Access and Insurance and the Director's Disclosure Deed are attached to this letter for your review. They will be submitted to the next Board meeting for approval. If you have any comments or queries on the deeds, please contact our Company Secretary

BUSINESS AND SITE INDUCTION

A visit to our operating mines will be arranged shortly.

A half day meeting with the CEO and senior management is also available to provide an overview of Macarthur Coal's business and operations. We will make contact with you in the near future to arrange a suitable time for this meeting.

OTHER DIRECTORSHIPS AND COMMITMENTS

As a director of Macarthur Coal you are not precluded from being appointed to other directorships including to the boards of other publicly listed companies. These, naturally, should be disclosed to the Company Secretary together with all related party interests.

I would appreciate you confirming your agreement with the above terms by signing the attached copy of this letter as soon as possible and returning it to our Company Secretary, in the envelope provided.

Finally, I look forward to working with you towards building shareholder wealth in this great company.

Yours faithfully

MACARTHUR COAL LIMITED

Chairman

Agreed & Accepted
[Insert Name]
/ / 2008

ANNEXURE 2

New directors induction procedure

This document sets out the induction procedure applicable to new non-executive directors.

Step 1 Induction pack

Provide the director with an induction pack. The induction pack will include the following:

- Macarthur Coal's constitution (including a summary of the key provisions)
- organisational structure diagram
- relevant Macarthur Coal policies
- Board charter and charters for the Nomination & Remuneration Committee and Audit & Risk Management Committee
- Corporate Code of Conduct

- Directors Code of Conduct
- last annual financial report
- copy of the auditor's last report to the Board
- copy of the last Board meeting package.

Any other reports will be made available if requested.

Step 2 Management presentations

Presentations on the different aspects of Macarthur Coal's business given by each direct report to the Chief Executive Officer.

Step 3 Site visits

Provide the director with a tour of Macarthur Coal's main operating sites.

Step 4 Ongoing access to information

Provide a briefing on contacts within Macarthur Coal for information.

Step 5 Further training

Identify the need for and arrange any specific further training which may be required.

ANNEXURE 3

The evaluation process applicable to the Board, Board Committees and individual directors

Guidelines

The performance evaluation process is intended to:

- be independent of management
- be objective and appear to be objective
- encourage open and constructive discussion in relation to performance
- preserve the confidentiality of each individual's performance assessment
- provide for discussion of issues which have been identified during the performance evaluations in the appropriate forum and followed up regularly between reviews
- cover the performance of the Board, each committee and each director.

ANNEXURE 4

Policy and Procedure for Selection and Appointment of New Directors

The appointment of a new director to the Board, either to fill a casual vacancy or as an addition to the existing Board of directors, must be made with the approval of the majority of the independent directors.

The Nomination and Remuneration Committee has delegated authority from the Board to identify, short list and recommend the appointment of a new director to the Board. In identifying, selecting and appointing a new director, the NRC and the Board will assess the following:

- The needs of the Board to ensure that there is a range of skills represented, including an understanding of:
 - The industry in which the Company operates;
 - The regulatory environment in which the Company operates; and
 - The markets in which the Company operates
- The appointee's particular skills and experience and their ability to fit with the existing Board.

Policy for the appointment of Directors

The Board's policy for the appointment of directors aims to ensure that any potential director best matches the needs of the Board.

Factors considered in appointing a new director include:

- The time commitment required by a director to discharge effectively the duties to the Company;
- The nature of existing positions, directorships or other material relationships and the impact that each may have on the potential appointee's ability to exercise an independent judgment;
- The extent to which the potential appointee is likely to work constructively with the existing directors and contribute to the overall effectiveness of the Board; and
- The extent to which the potential appointee meets the independence criteria as outlined in the ASX Principles of Good Corporate Governance.

In accordance with the Company's Constitution, any new director appointed to the Board will hold office from the date of appointment until the next General Meeting of the Company and is then eligible for re-election.

The Notice of Meeting involving the election of directors should ensure that there is sufficient information made available to shareholders so they can make an informed choice about who should be elected as a director. The Notice is to set out a range of matters about the person recommended for election as a director, including the matters required by the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

Procedure for the appointment of Directors

1. The Nomination and Remuneration Committee (NRC) will regularly review the size, composition and performance of the Board having regard to the number of current directors, the current and prospective areas of the business, the skills and experience, both existing and required, having regard to the scope of Macarthur Coal's business activities.
2. In the event that the NRC believes that a new director needs to be appointed, either to fill a casual vacancy or increase the total number of directors, names of potential candidates are to be sought from existing Board members. In addition, the NRC may engage the services of one or more recruitment agencies to identify appropriate candidates.
3. The NRC will review the list of nominees against the nature of the skills and experience required.
4. The NRC will then appoint one or more directors to contact the short listed candidates and confirm the suitability of otherwise of the candidate for appointment as a director.
5. The nominated directors will report back to the NRC on these discussions. The NRC may make any other enquiries regarding the short listed candidates as it deems appropriate.
6. Once satisfied that all relevant information has been obtained and assessed, the NRC will make an appropriate recommendation to the Board.
7. If approved, the Board will then authorize the Company Secretary to formally invite the candidates to join the Board in conjunction with the company's induction program for new directors, including a letter of appointment.