



Policy on Independence of Directors

1. Introduction

Ruralco Holdings Limited is committed to adopting the highest standards of corporate governance. Those standards require that the Board be structured so that it:

- has a proper understanding of the Company's business;
- is competent to deal with the range of issues facing the business;
- can effectively review the performance of management; and
- exercises independent judgment.

An important consideration in the structure of the Board is the independence of directors (including the chairman) and similarly the independence of members of the Audit & Corporate Governance Committee and Nomination & Remuneration Committee.

The Board is conscious of the need to have independent directors but must also ensure that Board members can add value in the context of Ruralco's business. Therefore, the Board will seek to ensure that there are directors who have a strong understanding of Ruralco's core business.

The Ruralco Policy on Independence of Directors has been developed by the Board after carefully considering recent corporate governance developments in Australia. In doing so, the Board has adopted the criteria for independence recommended by the Australian Stock Exchange Corporate Governance Council. The Board will assess the independence of directors of Ruralco pursuant to this Policy.

2. Purpose

The purpose of this Policy is to establish the process for considering the independence of directors. The Policy will:

- provide the materiality test which the Board will use to assess the independence of each director;
- identify the information that the Company will collect from directors to enable the Board to assess the independence of directors; and
- provide the basis of disclosure to shareholders of the assessment of the independence of directors.

3. Test of independence

The test that will be used by the Board of Ruralco to determine the independence of directors is:

Is the director independent of management and free of any business or other relationship with Ruralco that could materially interfere, or could reasonably be perceived to materially interfere, with the exercise of objective, unfettered and independent judgment of directors?

This test has been adopted from the recommendations of the Australian Stock Exchange Corporate Governance Council.

4. Information collected by the Board to assess independence

In determining the independence of individual directors the Board will consider all relevant information, facts and circumstances. It is not possible for this Policy to provide for all circumstances that will indicate a conflict of interest or a material relationship that might, or might be perceived to materially interfere with the exercise of objective, unfettered and independent judgment. However, a director will normally be considered to be independent if he or she satisfies the criteria set out in part 5.

A director may still be considered by the Board to be independent if the director does not meet one or more of the criteria specified in paragraph 5. The Board reserves its right to make an appropriate assessment and to disclose it as described in part 7 of this Policy.

Directors have provided the Board with all information in relation to their interests or relationships relevant to independence. The directors are required to inform the Board of any change in their position. The Board will assess the independence of directors annually and will re-assess determinations of independence when any new interests or relationships are disclosed by a director.

5. Independence criteria and materiality thresholds

The criteria adopted by the Board which would indicate that a director is not independent are:

Officer or substantial shareholder

- a. the director is an executive of Ruralco;
- b. the director is a substantial shareholder in Ruralco or an officer of or otherwise associated, directly or indirectly, with a substantial shareholder in Ruralco.

For the purpose of this policy, a person is a substantial shareholder if they hold more than 5% of the shares entitled to vote in an entity (Corporations Act 2001 (Cth)).

An officer is defined by the Corporations Act. Significantly, it includes:

- i. *a director or secretary of the Company;*
 - ii. *a person who makes or participates in making decisions that affect the whole or substantial part of the business of the Company or who has the capacity to affect significantly the Company's financial standing; and*
 - iii. *a liquidator, receiver and administrator of the Company;*
- c. the director has been employed by a Company in the Ruralco Group within the last 3 years.

Adviser

- d. the director has been a principal or material employee of a material professional adviser or consultant to a member of the Ruralco Group within the last 3 years. A professional advisor will typically be material if the adviser's fees account for more than 0.1% of Ruralco's consolidated gross revenue or if Ruralco accounts for more than 5% of the advisers consolidated gross revenue. Ruralco's auditor, principal financial and legal advisers are regarded as material advisers.

- e. the director currently receives consulting, advisory or other fees other than in the capacity as a director. This includes payments to a family member or an entity in which the director is a partner, member or officer if the entity provides legal, financial, consulting or other similar services to Ruralco.

Supplier, customer or material contractual relationship

- f. the director, or a direct family member, is a material supplier or customer of a member of the Ruralco Group or is an officer, substantial shareholder of, or otherwise associated directly or indirectly with a material supplier or customer. A supplier or customer will typically be material if the value of purchases or sales accounts for more than 3% of Ruralco's consolidated gross revenue, or more than 5% of the consolidated gross revenue of the customer or 1% of the consolidated gross revenue of a supplier.
- g. the director, or a direct family member, has a material contractual relationship with a member of the Ruralco Group or is an officer, substantial shareholder of or otherwise associated directly or indirectly with an entity which has a material contractual relationship with a member of the Ruralco Group. A contractual relationship will typically be material if: the value of the contract is more than 5% of Ruralco's consolidated gross revenue; or, if the contract is for more than five years; or, the contract is for the supply of essential goods or services where there is a choice.

Long-term director of Ruralco

- h. the director has served on a Board of Ruralco (or a predecessor Company) for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Ruralco. The Board does not consider that a specific time frame should be provided but notes that four consecutive terms of three years or equivalent as a director, or in the case of chairman, three consecutive terms of three years, or equivalent, might be considered to be a period that could be perceived to materially interfere with a director's ability to act in the best interests of the Company. The test will be applied on a case by case basis considering all relevant circumstances.

Business relationship

- i. the director has had a material business relationship with Ruralco either directly, or as a partner, shareholder or director of an entity that has had such a relationship with a member of the Ruralco Group within the last 3 years. A business relationship will typically be material if the value of the business relationship is in excess of 5% of Ruralco's or the director's (or related entity's) consolidated gross revenue.

Board's discretion

- j. the Board determines that the director is not otherwise independent in character and judgment.

These criteria are guidelines for the Board to use in determining the independence of directors. The test of whether a relationship or business is "material" will be based on the nature, circumstances and activities of the director

having regard to these guidelines. Materiality will be considered from the perspective of both Ruralco and the director and will be determined on a case by case basis.

6. Access to information and independent professional advice

Directors need high quality information and advice on which to base their decisions and considerations. All directors have unrestricted access to Company records and information. They regularly receive detailed reports. Management prepare and present to directors detailed financial and operating reports monthly. Directors may request other reports from management at any time.

Each director has the right to seek advice and clarification from the Company's auditors, financial and legal advisers on any matter relating to the Company or Board performance at Ruralco's expense.

It is also important that directors can obtain independent advice. Directors therefore have the right to seek independent professional advice to help them carry out their responsibilities at Ruralco's expense. Before this expense can be incurred on behalf of the Company, the approval of the chairman is necessary or in the absence of that approval, Board approval.

7. Disclosure

The Board will make appropriate disclosure to shareholders in Ruralco's Annual Report including:

- identifying the skills, experience and relevant expertise of each director;
- identifying the independence and non-independence of directors and the basis of the assessment of independence;
- explaining the assessment of independence for any director who does not meet the independence criteria;
- setting out material relationships, associates and other relevant business relationship of each director and the period of office held by each director. This will include details of any relationships or circumstances which the Board believes does not affect independence but which could be perceived as influencing the director's judgment, objectivity or ability to act in the best interests of Ruralco;
- explaining any departure from the best practice recommendations set out in the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations;
- setting out the procedure agreed by the Board to enable directors to obtain independent professional advice at the expense of the Company; and
- developing and reviewing thresholds Ruralco adopts to help assess and determine independence.

8. Further information and queries

If you have any queries or would like further information relating to this policy and the independence of directors, please contact the Company Secretary.

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Updated as at 15 February 2007.