

### 1 GENERAL SCOPE AND AUTHORITY

#### 1.1 Purpose

To specify the authority delegated to the Audit and Risk Management Committee ('**Committee**') by the Board of Directors ('**Board**') of Incitec Pivot Limited (the '**Company**' or '**IPL**') and to set out the role, responsibilities, membership and operation of the Committee.

For the purposes of this Charter, where appropriate, references to IPL or Company shall be taken to include subsidiaries and associates<sup>1</sup>.

#### 1.2 Authority

The Committee is established pursuant to Rule 8.3 of the Constitution and Rule 8.1 of the Board Charter.

### 2 PURPOSE OF THE COMMITTEE

#### 2.1 The purpose of the Committee is to assist the Board of Directors:

- (a) in its monitoring and review of:
  - (i) IPL's financial reporting principles and policies, controls and procedures;
  - (ii) the integrity and reliability of IPL's financial statements;
  - (iii) the effectiveness of the systems of internal control and risk management;
  - (iv) the work of the internal audit function;
  - (v) the adequacy of practices and procedures with respect to the Company's compliance with legal and regulatory requirements and actual compliance with those laws and regulations;
  - (vi) the corporate policies for identifying and managing relevant risks associated with the IPL business;
- (b) with the effective discharge of its responsibilities for business, market, credit, financial instruments, operational, liquidity and reputational risk management;
- (c) by making recommendations to the Board in relation to the appointment of the external auditor, internal auditor (if this function is fully outsourced) and approving their remuneration and the terms of their engagement.

#### 2.2 The Committee has no executive powers with regard to its recommendations and does not relieve the Board of its responsibilities for these matters.

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<sup>1</sup> 'Associates' shall take the meaning from AASB 128 Investments in Associates.

### 3 RESPONSIBILITIES OF THE COMMITTEE

#### 3.1 External Auditor

The Committee's duties with respect to the external auditor are to:

- (a) manage on behalf of the Board the relationship between the Company and the external auditor including the appointment, remuneration, retention or oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for IPL;
- (b) evaluate the expertise and experience of potential auditors and recommend to the Board the firm to be proposed to shareholders for approval;
- (c) determine the terms of engagement and remuneration of the external auditor (including the fees charged for audit and review services), and make recommendations to the Board on any decisions.

As part of the terms of engagement, and to optimise the effectiveness of subsequent processes, the Committee will:

- (i) evaluate and review the annual audit plan (including the nature, scope, materiality level and procedures of the plan);
- (ii) monitor and review compliance with, and the quality and effectiveness of implementation of, the audit plans of the external auditor;
- (iii) determine categories of non-audit services that may be provided by the external auditor;
- (iv) resolve any disagreements between the external auditor and management regarding IPL's financial reporting; and
- (v) evaluate the audit representation letter prior to its adoption;
- (d) provide pre-approval or otherwise of all non-audit services that may be provided by the external auditor;
- (e) ensure disclosure to shareholders of the Committee's approval of all non-audit services provided by the external auditor;
- (f) review and provide oversight of audit reports prepared and issued by the external auditor on IPL's financial statements and activities;
- (g) consider and review reports prepared by the external auditor on critical accounting policies, all alternative treatments of financial information permitted under the Australian equivalents to International Financial Reporting Standards ('AIFRS') and all other written communication between the external auditor and management;
- (h) monitor and review any management or other restrictions being placed on the external auditor;
- (i) monitor and review the independence and objectivity of the external auditor and assess and discuss with the external auditor any relationship that may impact their objectivity and independence, in particular having regard to the provision by the external auditor of any non-audit services;
- (j) receive and review from the external auditor an annual written statement as to the external auditor's independence including details of all relationships with IPL;
- (k) annually evaluate and review the effectiveness of the external auditor and report to the Board on the results of its evaluation, report to the Board on any circumstances which it determines to be a failure to perform to the standards required under the audit plan or applicable professional standards, and make recommendations to the Board as necessary concerning the appointment or dismissal of the external auditor;
- (l) monitor and review the rotation of the external auditor's engagement partners at agreed intervals; and
- (m) ensure that the lead auditor attends the Company's Annual General Meeting and participates at such Annual General Meeting as necessary.

### **3.2 Financial Reporting**

The Committee's duties with respect to financial reporting are to:

- (a) receive from management, internal audit and the external auditor a timely analysis of significant financial reporting issues and practices and review such analyses;
- (b) evaluate, review and recommend to the Board for approval the draft financial statements and other related information proposed to be released through the Australian Securities Exchange ('**ASX**') to shareholders and to the financial community in accordance with the half yearly and annual reporting cycle;
- (c) review any significant matters arising from the audit, management judgments and accounting estimates, significant changes to IPL's auditing and accounting principles, controls, procedures and practices with management, internal audit and the external auditor;
- (d) review significant audit adjustments and any audit recommendations that have not been adjusted;
- (e) review, with the external auditor and management, the critical accounting policies and practices adopted, and any changes to them;
- (f) review the certification provided by the CEO and the CFO on annual and half yearly reports and review processes that were used to reach the opinion in the certification, including the process implemented to support the certifications as to the truth and fairness of the Company's financial statements and that those statements are based on a sound system of risk management and internal control so far as they relate to financial statements;
- (g) review the form of disclosures made in financial statements, and annual and half yearly reports, where those disclosures are required by the ASX Corporate Governance Council's Principles and Recommendations and ASX Listing Rules and such disclosures relate to those matters within the remit of the Committee as set out in this Charter; and
- (h) review the form of the opinion that the external auditor proposes to render.

### **3.3 Internal Audit**

The Committee's duties with respect to internal audit are to:

- (a) review and approve the structure of the internal audit function, and resources, including approving any proposed reduction in the resources engaged in the internal audit function or the manner in which that function is performed, and should the internal audit function be fully outsourced, review the appointment of the internal auditor and recommend to the Board the selection, evaluation and replacement as necessary of the internal auditor;
- (b) evaluate the performance of the internal audit function;
- (c) receive summaries of significant reports to management prepared by the internal audit function, the management response and internal audit's recommendations;
- (d) monitor and review any restrictions placed on the internal audit function by management;
- (e) review and approve the annual internal audit plan including scope and materiality level of the audit plan;
- (f) monitor and review compliance with, and the effectiveness of implementation of, audit plans of the internal audit function;
- (g) conduct an annual assessment of the effectiveness of internal controls and financial reporting procedures; and
- (h) monitor and review the level of open communication between the internal audit function, the external auditor and the Board.

### **3.4 Internal Control and Risk Management**

The Committee's duties with respect to internal control and risk management are to assist the Board in its oversight of the effectiveness of the systems of internal control and risk management and the Committee will:

- (a) review and monitor, by receiving reports from management, the internal audit function and the external auditor, IPL's risk management policies (including financial risk management policies regarding, among others, hedging of interest rate risk and foreign currency exchange risk) and principles, strategies, processes and controls, including the powers conferred on management and including, without limitation the Trading Policy for Quantum Fertilisers; and report to the Board as necessary, and, if thought appropriate, recommend that the Board approve or vary them;
- (b) review and monitor, by receiving reports from management, the internal audit function and the external auditor, the appropriateness and adequacy of IPL's processes for determining, monitoring and assessing material business risks;
- (c) review and monitor, by receiving reports from management, risk implications from new and emerging risks, organisational change, major initiatives, changes in the economic and business environment and other factors relevant to IPL's future strategy and IPL's projected business performance;
- (d) review and monitor resolution of significant risk exposures and risk events by receiving reports from management, and, if thought appropriate, recommend that the Board approve the same;
- (e) receive reports from management as to material actual and suspected breaches of law, including fraud and theft, and review and monitor policies and systems to manage this risk, including, reviewing policies and practices for detecting, reporting and preventing fraud, serious breaches of business conduct and whistle blowing procedures;
- (f) oversee, by receiving reports from management, the adequacy and appropriateness of IPL's compliance with laws, and regulations and accounting standards that may impact its financial statements;
- (g) review and monitor, by receiving reports from management, IPL's insurance strategy, including the coverage and limits of the policies, and, if thought appropriate, recommend the Board approve or vary them;
- (h) review the form of the proposed annual letter of assurance from the CEO and CFO as to the effectiveness of IPL's management of material business risks;
- (i) review the form of disclosure to be made in the Annual Report regarding the report given by the CEO and CFO as to the effectiveness of IPL's management of material business risks, and, if thought appropriate, recommend the Board approve or vary it; and
- (j) to receive reports, at least every three years, on an external review of IPL's risk management program undertaken by a suitably qualified consulting organisation, together with management's responses to that review.

### **3.5 Accounting Complaints**

The Committee's duties with respect to handling accounting complaints are to:

- (a) ensure procedures are in place for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and audit matters;
- (b) ensure a procedure is in place for employees to make confidential, anonymous submissions regarding questionable accounting or auditing matters; and
- (c) ensure procedures are in place to prohibit IPL from firing, demoting or discriminating against any employee who lawfully provides information to a regulatory body or other nominated party about IPL that the employee reasonably believes may be relevant to a securities fraud investigation or proceeding.

### **3.6 Corporate Governance**

The Committee's duties with respect to corporate governance are to:

- (a) review minutes of other Committees of IPL and respond to issues as appropriate; and
- (b) ensure that IPL has adopted a code of ethics that is applicable to the CFO and other senior financial officers.

### **3.7 Reporting to the Board**

The Chairman of the Committee (or a person nominated by the Chairman of the Committee for that purpose) must:

- (a) following each Committee meeting, report to the Board at the Board's next meeting on all matters relevant to the Committee's role and responsibilities; and
- (b) attend the Board meeting at which the Company's financial statements are approved.

## **4 COMPOSITION OF THE COMMITTEE**

### **4.1 Membership**

- (a) The Committee will consist of at least three members each of whom will be appointed or removed by the Board, following in each case a review by the Board in consultation with the Chairman of the Committee (other than in respect of the Chairman's own appointment or removal).
- (b) Each member of the Committee must be a non-executive Director.
- (c) A majority of members of the Committee must be independent Directors, as determined by the Board, having regard to the ASX Corporate Governance Council's Principles and Recommendations.

### **4.2 Chairman**

The Chairman of the Committee:

- (a) will be elected by the Board;
- (b) must be a member of the Committee;
- (c) must be an independent Director; and
- (d) must not be the Chairman of the Board.

### **4.3 No Fees Other than as Director/Member of Committee**

A Director who sits on the Committee cannot receive fees from IPL other than in the capacity as a Director or member of a committee of the Board unless the Board determines that the fees are not material to the independence or judgment of the Director as a member of the Committee.

### **4.4 Other Rules and Regulations**

In appointing the members of the Committee, the Board will have regard to the ASX Listing Rules, the ASX Corporate Governance Council's Principles and Recommendations and the *Corporations Act 2001* (Cth).

### **4.5 Expertise**

- (a) Each member of the Committee must be appropriately financially literate (that is, able to read and understand financial statements).
- (b) At least one member of the Committee must have relevant qualifications and experience (that is, should be a qualified accountant or other finance professional with experience of financial and accounting matters).
- (c) At least one member of the Committee must have an understanding of the industries in which IPL operates.
- (d) The Committee must ensure that its members understand the IPL Group structure, controls and typical transactions in order to adequately assess the material business risks faced by IPL.

### **4.6 Company Secretary**

The Company Secretary shall be secretary of the Committee.

## **5 MEETINGS & COMMITTEE PROCESS**

### **5.1 Meetings**

Meetings and proceedings of the Committee are governed by the provisions of IPL's Constitution regulating meetings and proceedings of the Board and committees of the Board insofar as they are applicable and not inconsistent with this Charter.

### **5.2 Frequency**

The Committee shall meet as frequently as required but not less than 4 times a year. Any Committee member or Secretary of the Committee may call a meeting of the Committee.

### **5.3 Quorum**

A quorum will comprise of any two independent non-executive Director Committee members. In the absence of the Committee Chairman or appointed delegate, the members shall elect one of their number as Chairman of that meeting.

### **5.4 Notice**

A notice of each meeting confirming the date, time, venue and agenda shall be distributed to each member of the Committee (with a copy to all members of the Board excluding any matter where a conflict of interest has been notified) at least 4 days prior to the date of the meeting. The notice of meeting will include the relevant supporting papers for the agenda items to be discussed.

### **5.5 Agenda**

The Committee shall develop and agree an annual program capable of fulfilling its responsibilities.

This will include formal opportunities for the Committee to meet independently with management, the external auditor and the internal auditor.

The Chairman, with the assistance of the Secretary of the Committee, will develop the agenda for each meeting on the basis of the annual program and any other matters deemed to be relevant to the particular meeting.

### **5.6 Attendance**

(a) The Committee may extend an invitation to any person to attend all or part of any meeting of the Committee which it considers appropriate. In particular, the Committee may invite any of the following to attend a meeting of the Committee:

- (i) the external auditor;
- (ii) external advisers including any party undertaking an internal audit;
- (iii) any non-executive Director, any executive Director or employee including, without limitation, the Chief Risk Officer; or
- (iv) any other person,

and may do so with or without management being present.

(b) The Committee must meet with the Chief Risk Officer and external auditor at least once a year without other management being present.

### **5.7 Access to Employees, Internal Auditor and External Auditor**

In order to fulfil its purpose and undertake its duties, the Committee has unrestricted access to:

- (a) employees of IPL including, without limitation, the Chief Risk Officer;
- (b) any party undertaking an internal audit; and
- (c) the external auditor,

in each case, without management being present.

## **5.8 Access to Records and Information**

In order to fulfil its purpose and undertake its duties, the Committee has unrestricted access to Company records and any other document, report, material or information in the possession of an employee or external adviser to IPL.

## **5.9 Special Investigations**

The Committee may initiate any special investigation as it deems necessary or as directed by the Board in relation to matters set out in this Charter.

## **5.10 Access to Independent Advice**

The Committee may obtain independent professional advice to assist it in the proper exercise of its powers and responsibilities under this Charter, with the costs to be borne by IPL.

## **5.11 Minutes**

Minutes of proceedings and resolutions of the Committee shall be kept by the Secretary of the Committee. After preliminary approval has been given by the Chairman of the Committee, minutes shall be included in the papers for the next full Board meeting after each Committee meeting. Minutes shall be confirmed at the next meeting of the Committee. Minutes, agenda and supporting papers will be made available to every Director providing no conflict of interest exists.

## **6 COMMITTEE'S ANNUAL REPORT AND PERFORMANCE EVALUATION**

The Committee will review its performance, by self assessment, at least annually. The performance evaluation will have regard to the extent to which the Committee has met its responsibilities under this Charter. The Committee will present to the Board annually a report of its activities for the prior financial year and on its performance following the annual performance evaluation.

## **7 REVIEW AND PUBLICATION OF CHARTER**

The Committee will review its Charter from time to time and make recommendations to the Board as to any changes it considers should be made. The Charter may be amended by resolution of the Board.

This Charter will be available on IPL's website and the key features will be published in the Annual Report.

Adopted by the Board on 25 March 2010 and amended 21 December 2010 and 20 December 2011.