

# Yancoal Australia Ltd

## Audit and Risk Management Committee

The Audit and Risk Management Committee's objectives are to:

- help the Board in relation to the reporting of financial information;
- advise on the appropriate application and amendment of accounting policies;
- make evaluations and recommendations to the shareholders of the Company regarding the external auditor;
- recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution;
- provide a link between the Board and the external auditor and management;
- ensure that the Board, directors and management are aware of material risks facing the business;
- ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively; and
- assess the independence of the external auditor.

The Committee makes recommendations to the Board. It does not have any power to commit the Board or management to these recommendations. The Committee has unrestricted access to executives of the Company, and to the internal and external auditors in order to fulfil its purpose and undertake its duties.

The Committee plays a key role in helping the Board oversee financial reporting, internal control structure, risk management systems and the internal and external audit functions. The Committee is also intended as a mechanism for the auditor to communicate informally and confidentially about these issues and about potentially troublesome matters at a relatively early stage of audit, and to broach sensitive issues in an uninhibited fashion.

The Committee oversees —

- the preparation of, and the integrity of the group's financial statements;
- the risk management framework;
- the adequacy of the accounting system and internal control environment;
- the adequacy of the systems for compliance with relevant laws, regulations, standards and codes;
- the effectiveness of financial controls and systems and the audit process;
- the process for identification and management of financial risk and any improvements that can or should be made to the Company's internal controls, policies and financial disclosures;
- the Company's relationship with the external and internal auditor as well as the external and internal audit function;
- the Chief Executive Officer's (CEO) compliance with applicable delegation of authority limits;
- the frequency, significance, and propriety of transactions with related parties; and

- the integrity and quality of the Company's financial information including financial information provided to the Majority Shareholder, ASIC, the Australian Securities Exchange (ASX), the Hong Kong Stock Exchange (HKEX) and other regulatory bodies.

## **Membership**

### **Composition and quorum**

The Committee will comprise of a minimum of three directors, all of whom must be non-executive directors and a majority of whom must be independent. The Board may appoint additional non-executive directors to the Committee or remove and replace members of the Committee by resolution. The Committee members must be financially literate and have an understanding of the industry in which the Company operates and at least one independent non-executive director must have appropriate professional qualifications or accounting or associated financial management expertise.

A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two years from the date the person ceases:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is the later. The Board will appoint the Chair of the Committee. The Chair must be an independent non-executive director and must not be the Chair of the Board.

A Committee quorum will comprise a majority of the Committee members of whom at least one shall be an independent non-executive director.

The Chair of the Committee (or in his or her absence, his/her duly appointed delegate) shall attend the Company's annual general meetings and be prepared to respond to any shareholders' questions on the Committee's activities.

### **Removal or resignation**

Members of the Committee may withdraw from membership by written notification to the Board. The Board may appoint additional directors to the Committee or remove and replace members of the Committee by resolution. 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.

### **Secretary**

The Company Secretary will be the secretary of the Committee.

### **New candidates**

Having regard to the skills required and the skills currently represented on the Committee, the

Committee, through the Nomination and Remuneration Committee will implement a process for the identification of suitable director candidates for appointment to the Committee. 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, in consultation with the Nomination and Remuneration Committee, will make recommendations to the Board on candidates it considers appropriate for appointment.

### **Induction of new members**

New Committee members must be given a copy of this Charter, together with sufficient information about the Company and its:

- business operations and industry in which it operates;
- financial performance;
- risk management system;
- internal control system;
- financial reporting policies including related-party issues;
- legal and regulatory requirements including external reporting and compliance responsibilities;
- Code of Conduct; and
- unusual transactions.

All material previously provided to Committee members on matters still before the Committee must also be given to new members.

## **Meetings**

### **Frequency and calling meetings**

The Committee will meet with the level of frequency required to ensure it can undertake its role effectively. The Chair will convene at least four meetings of the Committee each year and any additional meetings that the Chair considers necessary or appropriate to carry out the Committee's responsibilities.

At least once each year, the Chair will convene a meeting of the Committee to meet with the external and internal auditors separately, without any executive directors or management being present.

In addition, the Company Secretary must call a meeting of the Committee if requested by any Committee member, the Board, or the external auditor.

### **Calling meeting and notice**

Any Committee member or, at the request of a Committee member the Company 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 (with a copy to all Board members) together with relevant supporting documents in a timely manner.

## **Advice**

The Committee will have access to employees of the Company and to external advisers. A request for external advice must be made through the Company Secretary.

## **Report to Board**

The Chair of the Committee or his / her delegate will provide a verbal report of highlights of the meeting to the Board at the Board meeting following each meeting of the Committee (to the extent considered necessary). This report should contain any recommendations identified by the Committee to the Board. The report should also comment on the outcome or updates of any matters referred to it by the Board.

## **Minutes**

Minutes of proceedings and resolutions of Committee meetings will be kept and prepared promptly by the Company Secretary following the Committee meeting.

Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee and decisions reached, including any concerns raised by Committee members or dissenting views expressed.

Draft minutes of such meetings will be distributed to the Chair of the Committee for his / her comment within a reasonable time after such meetings.

Minutes of Committee meetings will be tabled at a subsequent Committee meeting for all Committee members to review and approve.

The register of minutes will be kept by the Company Secretary and be open for inspection on reasonable notice by any Committee member and any Director of the Board.

## **Invitational attendance**

The Committee, if considered appropriate, may invite the Chair of the Executive Committee, the CEO, any other senior executives or other individuals to attend meetings of the Committee and provide information as necessary.

Any non-executive Directors of the Company who are not members of the Committee may attend meetings of the Committee.

## **Duties and responsibilities**

### **Audit**

The duties and responsibilities of the Committee include the following:

- (a) Engage in the pro-active oversight of the Company's financial reporting and disclosure process and the outputs of that process (including review of the Company's financial statements for accuracy and to ensure they reflect a true and fair view, as a basis for recommendation to and adoption by the Board);

- (b) Assess the suitability of the qualification of the Executive General Manager, Audit and Risk;
- (c) Receive reports directly from the Executive General Manager, Audit and Risk;
- (d) Review, oversee and report to the Board in relation to:
- the framework for the preparation of the annual financial budget by the Executive Committee and the consultation process undertaken by management with the Majority Shareholder;
  - the preparation of, and the integrity of the group's financial statements, including reviewing financial statements for adherence to accounting standards and policies and other requirements relating to the preparation and presentation of financial results;
  - the external audit of the Company's financial reports, including the scope and adequacy of the external audit and the results of the external audit, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control;
  - the appropriateness of the accounting policies adopted by management in the composition and presentation of financial reports (or any changes made or contemplated in relation to the Company's accounting policies) and assess the management processes supporting external reporting;
  - how the Company's internal audit function is structured and what role it performs;
  - the results and effectiveness of the internal audit programs and the performance and objectivity of the internal audit function, including whether the internal auditors are adequately resourced and co-ordinated with the external auditor;
  - outcomes and approve of the internal audit program;
  - the Company's relationship with the external and internal auditor as well as the external and internal audit function;
  - the independence<sup>1</sup> and objectivity of the external auditor and the effectiveness of the audit process (based on the information received from the external auditor and management) in accordance with applicable standards;
  - the appointment, reappointment or replacement, remuneration and terms of engagement of the external auditor and rotation of external audit engagement partners, and any questions of its resignation or dismissal<sup>2</sup>;
  - the development and implementation of policy on engaging an external auditor to supply non-audit services;
  - the frequency, significance, and propriety of transactions with related or connected parties;
  - the integrity and quality of the Company's financial information including financial information provided to the Majority Shareholder, ASIC, the ASX, the HKEX and other regulatory bodies; and
  - the Company's tax risk management, arrangements and compliance.

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<sup>1</sup> To review and monitor the independence of the external auditors, the Committee shall: (i) consider all relationships between the Company and the audit firm (including non-audit services); (ii) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and (iii) meet with the auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

<sup>2</sup> Where the Board disagrees with the Committee's recommendation on the selection, appointment, resignation or dismissal of the external auditors, the Company shall disclose in the corporate governance report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

- (e) Provide advice to the Board as to whether the Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence<sup>3</sup>, and an explanation of why those non-audit services do not compromise audit independence, in order for the Board to be in a position to make the statements required by the *Corporations Act 2001* (Cth) to be included in the Company's Annual Report.
- (f) Discuss with the external auditor before the audit commences the nature and scope of the audit and reporting obligations, and ensure coordination where more than one audit firm is involved.
- (g) Review and consider all the Company's publicly released material concerning financial information.
- (h) Ensure that the Company's external auditor attends the AGM and is available to answer questions from shareholders relevant to the audit.
- (i) Liaise with the Board and senior management of the Company and meet with the external auditor at least twice a year.
- (j) Ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- (k) Review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.

## **Risk**

The Committee will review the Company's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the Board, and report on this review to the Board. In fulfilling this responsibility, the Committee will review and report to the Board that:

- the Company's ongoing risk management program effectively identifies all areas of potential and emerging business risks, which may include regulatory and compliance risk, investment risk, legal risk, economic risk, environmental risk, social sustainability risk, occupational health and safety risk, financial risk, reputation risk, operational and execution risk and strategic risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness, including recommendations in relation to changes to be made to an entity's risk management framework or to the risk appetite set by the Board.

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<sup>3</sup> When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee shall consider various factors, including (i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services; the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and (iv) the criteria for the compensation of the individuals performing the audit.

The duties and responsibilities of the Committee include ensuring, reviewing and evaluating:

- the effectiveness of financial controls and systems;
- the process for identification and management of financial risk and any improvements that can or should be made to the Company's internal controls, policies and financial disclosures;
- whether the Company has any material exposure to environmental or social risks and, if it does, how the Company manages or intends managing those risks;
- the process to verify the integrity of any periodic corporate report released to the market that has not been reviewed or audited by an external auditor, and ensuring that process is disclosed whether in that report or more generally in the Company's governance disclosures in its annual report or on its website (noting that the authorisation of public disclosure of any such periodic corporate report which has not otherwise been approved by the Board, is the responsibility of the Disclosure Committee or a designated officer of the Company);
- the adequacy of the systems for compliance with relevant laws, regulations, standards and codes;
- the CEO's compliance with applicable delegation of authority limits;
- the structure and adequacy of the Company's business continuity plans;
- the structure and adequacy of the Company's insurances on an annual basis;
- the establishment and maintenance of processes to ensure that there is:
  - an adequate system of internal control, management of business risks and safeguard of assets; and
  - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control;
- reports from management on new and emerging sources of risk and the risk controls and mitigation measures that management has put in place to deal with those risks;
- the Company's exposure to fraud and overseeing investigations of allegations of fraud or malfeasance and the "lessons learned";
- the Company's policies and culture with respect to the establishment and observance of appropriate ethical standards;
- reports from internal audit on its reviews of the adequacy of the Company's processes for managing risk;
- compliance with the Company's policies regarding managing conflicts of interest and related party transactions, and whether any amendments to these policies are required;
- the Company's main corporate governance practices for completeness and accuracy; and
- whether the Company has any material exposure to economic sustainability risks and, if so, how the Company is managing those risks. In this context:
  - 'economic sustainability' refers to the ability of the Company to continue operating at a particular level of economic production over the long term; and
  - 'material exposure' means a real possibility that the risk in question could substantively impact the listed entity's ability to create or preserve value for security holders over the short, medium or long term.

## **Disclosure**

In order to maintain transparency the role of the Committee is to be fully and fairly reported to the Board. Consistent with the Disclosure Policy, the Committee will, to the extent reasonably practical and where it has not otherwise been approved by the Board, review all public disclosures and statements concerning the subject matter of this policy including

disclosures in:

- the annual report; and
- press releases relating to material or significant matters.

## **Resources**

Where the Committee considers it necessary or appropriate in order to fulfil its responsibilities, the Committee will be entitled to:

- access management and internal and external auditors, with the right to seek explanations and additional information from both management and auditors. Whilst the internal audit function reports to senior executives, it is acknowledged that the internal auditors also report directly to the Committee;
- access all books and records of the Company;
- draw on the expertise and resources of any employee of the Company, the internal auditors and external auditors;
- select and engage an external adviser or external service provider involving, where appropriate, advisers that are ‘independent’ in the sense that they are not usual service providers to the Company; and
- receive appropriate representations and attestations from the CEO and Chief Financial Officer as required.

In this context “independent” refers to the restrictions on relationships between the advisers providing the advice and management and/or third parties that might affect the adviser’s capacity to provide appropriate representation and advice to the Committee and should be determined in a way that is consistent with the Committee’s approach to audit independence.

## **Review**

The Committee will review its performance and compliance with this Charter annually.

The Committee will be subject to a periodic comprehensive review that includes surveys of directors, committee members, the internal and external auditors, senior financial and other management. The Committee will conduct an annual review of this Charter or as often as it considers necessary in order to make recommendations to the Board in relation to any changes that should be made to the Company’s risk management framework or to the risk appetite set by the Board and recommend amendments to the Board if necessary. The Board must approve any amendments to this Charter that stem from the review.

## **Publication of the Charter**

A copy of this Charter will be available to all directors and staff of the Company on request to the Company Secretary, electronically via the intranet and on the Company’s website.