

Toll Holdings Limited

Audit and Financial Risk Committee Charter

Adopted by the Board 25 August 2010

ACN 006 592 089

1 Membership of the Committee

The Committee must consist of:

- only Non executive Directors;
- a minimum of 3 members of the Board;
- a majority of independent Director; and
- an independent Committee Chair, who is not Chair of the Board.

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

Non-committee members, including members of management and the external auditor may attend all or part of a meeting of the Committee at the invitation of the Committee Chair.

The Chief Financial Officer is to attend all meetings as an invitee unless otherwise directed by the Committee Chair. The Managing Director is to be issued an invitation to attend as an invitee unless otherwise directed by the Committee Chair.

It is intended that all members of the Committee should be financially literate and have familiarity with financial management and at least one member should have relevant qualifications and experience (ie be a qualified accountant or other finance professional with experience of financial and accounting matters).

2 Role and responsibilities

2.1 Overview

The Committee's key Audit, Risk and Compliance responsibilities and functions are to:

- a) oversee the Company's relationship with the external auditor and the external audit function generally;
- b) oversee the Company's relationship with the internal auditor and the internal audit function generally;
- c) oversee the preparation of the financial statements and reports;
- d) oversee the Company's financial controls and systems;
- e) manage the process of identification and management of risk; and
- f) oversee any special investigations as directed by the Board.

2.2 Audit

The Committee's primary Audit roles are:

- to assist the Board in relation to the reporting of financial information;
- the appropriate application and amendment of accounting policies;
- the appointment, independence and remuneration of the external auditor; and
- to provide a link between the external auditors, the Board and management of the Company.

The following are intended to form part of the normal procedures for the Committee's audit responsibility:

- a) Engage in the pro active oversight of the Company's financial reporting and disclosure processes and overseeing and reviewing 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) Assist the Board in determining the reliability and integrity of accounting policies and financial reporting and disclosure practices.
- c) Review financial statements for adherence to accounting standards and policies and other requirements relating to the preparation and presentation of financial results and oversee the financial reports and the results

of external audit of those reports (including assessing whether external reporting is consistent with the Committee members' information and knowledge, and is adequate for shareholder needs).

- d) Review 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.
- e) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and procedures for the confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.
- f) Review management processes supporting external reporting, and any complaints or concerns raised internally regarding financial or accounting processes and practices.
- g) ensure that procedures are in place designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management.
- h) Approve the scope of the both internal and external audit for Board approval.
- i) Develop and oversee the implementation of the Company's external audit policy, a copy of which is attached as Attachment 1
- j) Review the effectiveness of the annual external audit, placing emphasis on areas where the Committee or the external auditors believe special attention is necessary.
- k) Determine whether the internal audit function is to be provided by an internal or external party provider.
- l) Review 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. Monitor the independence of the internal audit programs from the external auditors and management. Review the outcomes and approve the internal audit program.
- m) Review and approve the appointment and dismissal of the senior internal audit executive.
- n) Review the performance, independence and objectivity of the external auditors.
- o) Review the procedures for selection and appointment of the external auditors and for the rotation of external audit engagement partners.
- p) Assume responsibility for the appointment (including the termination of an engagement), compensation, the terms of engagement and other contractual terms of the external auditors.
- q) Develop and oversee the implementation of the Company's policy on the engagement of the external auditor to supply non audit services and ensure compliance with that policy. A copy of the policy on non-audit services provided by the independent external auditors is attached as Attachment 2.
- r) 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, 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.

2.3 Risk and compliance

The Committee's specific function with respect to risk and compliance management is to review and report to the Board that:

- a) the Company's ongoing risk management program effectively identifies all areas of potential risk, including specific risks relating to business continuity, disaster recovery, reputation, and currency/interest rate exposures;
- b) adequate policies and procedures have been designed and implemented to manage identified risks;
- c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- d) proper remedial action is undertaken to redress areas of weakness.
 - The following are intended to form part of the normal procedures for the Committee's risk and compliance responsibilities:
 - Evaluating the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks.
 - Evaluating the adequacy and effectiveness of the Group's financial and operational risk management control systems by reviewing reports from management and external auditors.
 - Evaluating the structure and adequacy of the Group's Business Continuity Plans.
 - Evaluating the structure and adequacy of the Group's own insurances on an annual basis.
 - Review adequacy of professional indemnity and Directors and Officers liability insurance policy.
 - Reviewing and making recommendations on the strategic direction, objectives and effectiveness of the Group's financial and operational risk management policies.
 - Overseeing 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.

- Evaluating the Group's exposure to fraud and overseeing investigations of allegations of fraud or malfeasance.
- Reviewing the procedures the Company has in place to ensure compliance with laws and regulations (particularly those which have a major potential impact on the Company in areas such as trade practices, occupational health and safety, and the environment).
- Advising the Board on the appropriateness of significant policies and procedures relating to financial processes and disclosures and reviewing the effectiveness of the Company's internal control framework.
- Reviewing and discussing with management and the internal and external auditors the overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs.

3 Administrative matters

3.1 Meetings

The Committee will meet as often as the Committee members deem necessary in order to fulfil their role. However, it is intended that the Committee will normally meet as follows:

- before the issue of the half yearly profit announcement (normally February);
- at the final planning stage of the audit (normally June); and
- before the issue of the final profit announcement and approval of the annual report and accounts (normally August).

A further meeting may be held following the Annual General Meeting to allow the Committee to review controls and access external audit compensation and performance (normally November).

3.2 Quorum

The quorum is at least 2 members including at least one independent Director in attendance.

3.3 Convening and notice of meeting

Any member may, and the Company Secretary must upon request from any member, the Managing Director or external auditors, convene a meeting of the Committee. Notice will be given to every member of the Committee of every meeting of the Committee at the member's advised address for service of notice (or such other pre notified interim address where relevant). However, there is no minimum notice period and acknowledgement of receipt of notice by all members is not required before the meeting may be validly held.

3.4 Meeting agenda

The Company Secretary, in conjunction with the Committee Chair, must prepare an agenda to be circulated to each Committee member and relevant invitees at least two full working days prior to each meeting of the Committee.

3.5 Chair

In the absence of the Committee chair, the Committee members must elect one of their number as Committee Chair for that meeting. The Committee Chair does not have a casting vote.

Any matter for which there is a deadlock may be referred to the Board for its consideration by any Committee member.

3.6 Secretary

The Company Secretary and Group Financial Controller must attend all Committee meetings as secretary and minute secretary, respectively.

The Company Secretary will distribute a meeting timetable for each forthcoming calendar year.

3.7 Rights of access and authority

The Committee has rights of access to management and to auditors (external and internal) without management present, and rights to seek explanations and additional information from both management and auditors. Whilst the internal audit function reports to senior management, it is acknowledged that the internal auditors also report directly to the Committee.

The Committee is to have access to adequate internal and external resources. For example, the Committee may:

- seek the advice of the Company's auditors, solicitors or other independent advisers (including external consultants and specialists) as to any matter pertaining to the powers or duties of the Committee or the responsibilities of the Committee, as the Committee may require; and
- seek any information it requires from any officer or employee of the Group.

3.8 Attendance at meetings by internal specialists and external advisers

The Committee may invite other persons, such as internal specialists or external advisers, to attend meetings if considered appropriate by the Committee Chair.

3.9 Minutes

Minutes of meetings of the Committee must be kept by the Company Secretary and, after approval by the Committee Chair, be circulated to members of the Board or presented at the next Board meeting. All minutes of the Committee must be entered into a minute book maintained for that purpose and will be open at all times for inspection by any Director.

3.10 Reporting

The Committee chair will report the findings and recommendations of the Committee to the Board following each meeting of the Committee.

The Committee Chair will also, if requested, provide a brief oral report as to any material matters arising out of Committee meetings. All Directors will be permitted, within the Board meeting, to request information of the Committee Chair or members of the Committee.

The Committee must approve the details to be published in the Company's Annual Report or any other statutory report with respect to the activities and responsibilities of the Committee.

4 Review

The Board will, at least once in each year, review the membership and Charter of the Committee to determine its adequacy for current circumstances and the Committee may make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise.

Attachment 1 Audit Independence Policy

External Audit Policy

Appointment

The Audit and Financial Risk Committee (**Committee**) has the responsibility and authority (subject to *Corporations Act 2001* (Cth) requirements) for the appointment, reappointment or replacement and remuneration of the external auditor as well as evaluating its effectiveness and independence. The Committee will review the appointment of the external auditor annually based on its assessment of the auditor's performance.

Assessment of External Auditor

The Committee will review the performance of the external auditor on an annual basis after completion of the year end audit. In evaluating the effectiveness of external audit, the Committee will assess the effectiveness of the external auditor based on a number of criteria including but not restricted to:

- the overall comprehensiveness of the external audit plan;
- the timeliness and quality of communications promised under the plan and delivered during the audit;
- the competency and industry knowledge of external audit staff; and
- the adequacy of resources to achieve the scope as outlined in the plan.

The Committee will seek feedback from management during the assessment process.

Independence

The Committee will review and assess the independence of the external auditor, including but not limited to any relationships with the Company or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the Company. The review and assessment will be carried out annually at the time the external auditor presents its annual audit plan.

Prior to this review, the Committee will request a report from the external auditor which sets out all relationships that may affect its independence, including the provision of non audit services, financial relationships, employment and other relationships and any other matters that may reasonably be thought to have bearing on the external auditor's independence. The report should outline any safeguards that the external auditor has in place to reduce any threat to independence to an acceptable level.

Before the Directors approve the half year and full year accounts, the external auditor will be asked to provide a declaration testifying to its independence in respect of the financial period in question. The external auditor will have a continuing obligation to notify the Committee, via the Company Secretary, of any new information it believes may be material to reviewing its independence.

The Committee has responsibility to develop and oversee the implementation of the Company's policy on the engagement of the external auditor to supply non audit services and to ensure compliance with that policy.

Rotation of External Audit Engagement Partner

The external audit engagement partner is required to rotate at least once every 5 years.

Policy on non-audit services provided by the independent external auditors

Role of the Committee

The Audit and Financial Risk Committee (the **Committee**) is responsible for the development and oversight of the Company's policy on the engagement of the external auditor to supply non audit services and ensure compliance with the policy.

What are non audit services?

'*Non audit services*' means any services provided by the external auditor which are not included in, or are not necessarily incidental to, the terms of the audit engagement.

These include audit related services such as:

- Financial audits
- Audits or reviews undertaken for regulatory purposes (eg Workers Compensation)
- Other audits or reviews
- Completion audits
- Tax compliance and advisory services
- Advice on accounting standards
- Purchase and vendor due diligence in M&A including advice on tax and deal structures

'Non audit services' do not include 'prohibited non audit services' that are referred to in the next paragraph of this policy.

What are prohibited non audit services?

'*Prohibited non audit services*' are services that, if provided by the external auditor to the Company, would create a real or perceived material threat to the independence of the external auditor. These include consulting advice, subcontracting operating activities normally undertaken by management and where the auditor may ultimately be required to express an opinion on its own work.

Examples of prohibited non-audit services include:

- Consulting services
- Legal representation on tax and other legal issues
- Designing or implementing new IT systems or financial controls

- Book-keeping
- Valuations, which will then be the subject of the audit firm's opinions
- Senior Executive recruitment and appointments
- Senior Management secondments
- Success fee based engagements
- Strategic business direction and planning
- Providing appraisal or valuation and fairness opinions;
- Performing internal audit services;
- Providing advice on deal structuring and related documentation;
- Providing tax planning and strategic advice;
- Providing IT systems services;
- Performing executive recruitment or extensive human resources functions;
- Acting as a broker dealer, promoter or underwriter; or
- Providing legal services.

Even if a non audit service is not listed above, it will be prohibited if it creates a real or perceived material threat to the independence of the external auditor.

External auditor may not provide prohibited non audit services

As a general rule, without the Committee's approval, the external auditor may not provide any prohibited non audit services to the Company.

CFO must approve all non audit services

To ensure auditor independence is maintained, the Company requires all engagements of the external auditor to provide non audit services to be approved in writing by the Chief Financial Officer.

CFO needs Committee approval for certain non audit services

The Chief Financial Officer must obtain the prior written approval of the Committee before the external auditor can be engaged to perform non audit services where:

- the fee for the particular engagement exceeds \$10,000; or
- the annual fees for all non audit services exceed, or are likely to exceed, 50% of the auditor's annual audit fees.

Factors to be considered by the CFO/Committee when granting approval

In assessing a request for non audit services, the Chief Financial Officer/Committee is required to give consideration to:

- the nature of the service provided;
- the dollar value and period of engagement;
- the availability of alternate service providers and the reasoning for recommending the external auditor;
- the audit firm's self assessment of its independence risk, including safeguards to mitigate perceived risks; and
- any other circumstances relevant to the engagement.

Monitoring and reporting

Internal Audit

Internal Audit will monitor whether this policy is being complied with and periodically report to the Committee as to compliance. Internal Audit must promptly report any breach of this policy to the Committee Chair.

CFO

The Chief Financial Officer must report to the Committee on a periodic basis regarding:

- any non audit services provided by the auditor; and
- the amounts paid to the external auditor for those services.

Committee

The Committee must provide an annual report to the Board with respect to the non audit services provided by the external auditor during the year. The report must include:

- the amounts paid or payable to the external auditor for non audit services provided during the year;
- a statement whether the Committee is satisfied that the provision of those services during the year is compatible with the general standard of independence for auditors; and
- the reasons for the Committee's opinion.