

MACARTHUR COAL



Audit and Risk Management Committee Charter

23 July 2009

1 Introduction

The Audit and Risk Management Committee's ("Committee") objective is to assist the Board of Macarthur Coal Limited and its controlled entities ("Macarthur Coal") to fulfil its responsibilities in relation to accounting, risk management and financial reporting practices.

The Committee makes recommendations to Macarthur Coal's Board of Directors ("Board"), however it does not have any power to commit the Board or management to the recommendations.

The Committee oversees on an ongoing basis:

- ❑ the adequacy and effectiveness of the accounting system and internal control environment
- ❑ the adequacy of the system for compliance with relevant laws, regulations, standards and codes
- ❑ the effectiveness of the risk management system (particularly with respect to the management and monitoring of material business risks)
- ❑ the independence, objectivity, scope and quality of any internal and external audit
- ❑ the frequency and significance of all transactions with related parties in addition to assessing their propriety
- ❑ the integrity and quality of Macarthur Coal's internal and external financial reporting.

It is also intended that the Committee provides an effective mechanism for the auditor to raise issues at a relatively early stage and in an uninhibited fashion.

2 Audit committee

2.1 Composition

The Committee will comprise at least three non-executive directors with the majority being independent. The Committee members must be appropriately financially literate and at least one member must have accounting or associated financial management expertise.

The Board will appoint one of the Committee members as Chairman. The Chairman of the Committee must not be the chairman of the Board and must be an independent director.

An executive director is not eligible to be a member of the Committee.

2.1.1. Removal or resignation

Any Committee member who retires, is removed or resigns from the Board ceases to be a member of the Committee. The Nomination and Remuneration Committee will appoint a successor. An induction program set out in Annexure 2 serves as a guide for inducting new members to the committee.

2.1.2 Committee may invite

The Committee, if considered appropriate, may invite any executive management team members, the external auditor or other individuals to attend meetings of the Committee.

2.1.3 Secretary

The Macarthur Coal Company Secretary will be the secretary of the Committee.

2.2 Meetings

2.2.1 Frequency

The Chairman will convene at least four meetings of the Committee annually and any additional meetings that the Chairman considers necessary or appropriate to carry out the Committee's responsibilities. In addition, the Chairman must call a meeting of the Committee if required by any Committee member, Macarthur Coal's Chief Executive Officer, the Board or the external auditor.

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 member of the Committee together with relevant supporting papers.

2.2.3 Advice

The Committee has unrestricted access to employees of Macarthur Coal, the internal and external auditors and appropriate external advisers.

2.2.4 Report to board

The Chairman of the Committee reports the findings and recommendations of the Committee to the Board at the next Board meeting after each Committee 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 after the 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 independent Committee members.

2.2.7 Annual Agenda of Items

Annexure 3 sets out a guide annual agenda framework linked to the Committee's duties and responsibilities and serves as a starting point for preparing agendas for each Committee meeting.

3 Duties and responsibilities

The Committee is to engage in the pro-active oversight of Macarthur Coal's financial reporting, risk management and disclosure processes. Management, rather than the Committee, is responsible for the day-to-day tasks involved in ensuring the accuracy of the financial reports and maintenance of the risk management system. The Committee, in consultation with the external auditor, financial management and internal auditors, is expected to exercise a high level of due diligence in relation to the accuracy of:

- ❑ preparation and distribution of full and half year reports (full or concise) reconciled with any preliminary report lodged with ASX
- ❑ reports in the form set out in the Appendix to the ASX Listing Rules

- ❑ information likely to have a material effect on the value of securities, as and when Macarthur Coal becomes aware of it.

The Committee will also review and consider all Macarthur Coal's half year and financial year reports.

The Committee will have the following duties and responsibilities:

3.1 External reporting

- ❑ Review and assess the appropriateness of Macarthur Coal's accounting policies and principles and any significant changes to those policies and principles. To ensure that the Committee can carry out this duty effectively, management is required to inform the Committee of:
 - any changes in accounting policies or their application during the reporting period
 - whether the methods chosen by management are consistent with Accounting Standards, Accounting Concepts and Urgent Issues Group (**UIG**) consensus views
 - the methods used to account for unusual transactions, for which there may be no specific accounting standard, including management's reasoning in determining that method.
- ❑ Review and assess any significant estimates and judgments in financial reports. To ensure that the Committee can carry out this duty effectively, management is required to inform the Committee of the method and process used in making material estimates and judgments, including management's reasoning in determining that method.
- ❑ Review and assess the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to Macarthur Coal's external reporting of financial and non-financial information. Examples include, but are not limited to:
 - Australian Accounting Standards
 - Corporations Act 2001 (Cth)
 - ASX Listing Rules, including but not limited to:
 - the existence of an appropriate procedure for meeting Macarthur Coal's continuous disclosure obligations
 - reviewing the disclosure of Macarthur Coal's main corporate governance practices for completeness and accuracy.
- ❑ Review and assess information from internal and external auditors that may affect the quality of financial reports.
- ❑ Review and assess documents and reports to regulators and make recommendations to the Board on their approval or amendment
- ❑ Following the Committee's review, provide a recommendation to the Board concerning adoption of the financial and non-financial statements.

3.2 Related party transactions

- ❑ Review and monitor related party transactions and assess their propriety to ensure that Macarthur Coal complies with director-related party transaction regulations.

- ❑ Review the reports of the Chief Financial Officer and the internal and external auditors relating to director-related party transactions.
- ❑ Approve all external disclosures regarding director-related party transactions.

3.3 Internal control and risk management

- ❑ Review and assess internal processes for determining, monitoring and assessing key risk areas with particular reference to:
 - non-compliance with laws, regulations, standards and best practice guidelines
 - important judgments and accounting estimates
 - litigation and claims
 - fraud and theft
 - other risks.
- ❑ Ensure that Macarthur Coal:
 - has designed and implemented risk management and internal control systems to manage the company's material business risks
 - has an effective risk management system in place
 - has an effective internal control system in place
 - has an effective system in place for controlling unusual and/or high risk transactions
 - has identified material business risks and provided them to the Board to enable it to determine the level of acceptable risk for Macarthur Coal
 - has a clear policy for reporting on whether the material business risks are being managed effectively
 - has a clear policy and procedure for reporting, actioning and documenting breaches of laws, including fraud and theft.
- ❑ Receive reports on all actual and suspected breaches of laws, including fraud and theft, from management.
- ❑ Meet periodically with management and external and internal auditors to discuss Macarthur Coal's control environment including the processes for improvement that are in place.

3.4 External audit

- ❑ Select an external auditor in accordance with Annexure 1 and make recommendations to the Board on the appointment, reappointment or replacement, and remuneration of the external auditor.

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- ❑ Review and assess the independence of the external auditor including but not limited to any relationships with Macarthur Coal or any other entity that may impair or appear to impair the external auditor's judgment or independence in respect of Macarthur Coal.
- ❑ Review and assess any prospective auditor replacement and/or tender suggested by management.
- ❑ Review and agree on the terms of engagement for the external auditor at the start of each audit.
- ❑ Review the scope of the external audit with the external auditor including identified risk areas and any additional agreed procedures.
- ❑ Monitor the activities and performance of the external auditor with regard to:
 - the proposed audit plan
 - the auditor's assessment of financial statement materiality
 - 'root causes' of any significant external audit year end adjustments
 - management restrictions or limitations placed on the auditor
 - the external auditor advice on the appropriateness of the accounting principles used and the clarity of the financial disclosure used or proposed to be used by Macarthur Coal.
- ❑ Review the external audit findings in respect of any significant deficiencies or weaknesses in controls, and ensure that management agrees to, and implements, appropriate and timely corrective action.
- ❑ Review and monitor management's responsiveness to the external auditor's findings and recommendations.
- ❑ Review, with the external auditor, any significant disagreements between the external auditor and management, irrespective of whether they have been resolved.
- ❑ Review all representation letters signed by management and be satisfied that the information provided is complete and appropriate.
- ❑ At least annually, meet with the external auditor without the presence of management.
- ❑ Consider whether, taken as a whole, the various relationships between Macarthur Coal and the external auditor, including the employment of former audit staff members, impair or appear to impair the auditor's judgment or independence.
- ❑ Determine whether the external auditor's audit fee is appropriate for conducting an effective, comprehensive and complete audit.
- ❑ Review the economic importance of Macarthur Coal (in terms of fees paid to the external auditor for the audit as well as fees paid to the external auditor for the provision of non-audit services) and assess whether the economic importance of Macarthur Coal to the external auditor impairs or appears to impair the external auditor's judgment or independence.
- ❑ Ensure that the external auditor complies with the following guidelines for provision of non-audit services. The external auditor:
 - may provide audit and audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor
 - should not provide services that are perceived to be materially in conflict with the role of auditor

- may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of auditor, subject to the approval of the Committee.

Exceptions may be made to the above guidelines if the variation is in the interests of Macarthur Coal and arrangements are put in place to preserve the integrity of the external audit process.

The Board must specifically approve any such exception.

3.5 Internal audit

Where applicable and appropriate:

- ❑ Review and assess the scope of the internal audit and the internal auditor's audit plan and work program, as well as the systems in place to monitor and evaluate the effectiveness of the internal auditor
- ❑ Monitor and assess the progress of the internal audit and any implications that may arise for the control environment
- ❑ Review and monitor management's responsiveness to the internal auditor's findings and recommendations
- ❑ Oversee the co-ordination of the internal and external auditors
- ❑ Ensure that the internal auditor reports jointly to the managing director and the Committee
- ❑ At least annually, meet with the internal auditor without the presence of management.

3.6 Internal monitoring

- ❑ Ensure that an appropriate internal control framework is established and maintained including systems for:
 - incurring and recording liabilities and expenses and arranging for payment
 - recording, monitoring and maintaining assets
 - managing and investing liquid funds
 - measuring financial performance of business units and monitoring their performance against budget.
- ❑ Assess internal processes for identifying and managing risk areas including:
 - compliance with laws, regulations, standards and best practice guidelines
 - important judgments and accounting estimates
 - litigation and claims
 - fraud and theft.
- ❑ Receive reports on all suspected and actual frauds, thefts and breaches of the law.
- ❑ Review in draft any half-yearly and annual financial report and directors' report that Macarthur Coal proposes to distribute to shareholders and other external parties.

- ❑ Recommend Board approval and release of the financial report and directors' report when satisfied with the propriety and accuracy of the draft financial report and directors' report.
- ❑ Assess the management of non-financial information in internal and external documents to ensure the information does not conflict with the financial report and directors' report.

3.7 Disclosure

In order to maintain transparency, the role of the Committee is to be fully and fairly reported.

4 New candidates

Having regard to the skills required and the skills currently represented on the Audit and Risk Management Committee, the Nomination and Remuneration Committee will recommend to the Board directors to be members of the Audit and Risk Management Committee.

5 Review

The Committee will review its performance and compliance with its terms of reference on an annual basis.

In addition, the Committee will be subject to a periodic review by the Nomination and Remuneration Committee.

6 Access to Audit and Risk Management Charter

The Audit and Risk Management 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 www.macarthurcoal.com.au

Version	Date Approved by Board
Initial Version	12 March 2004
Revision 1	14 July 2005
Revision 2	20 July 2006
Revision 3	19 June 2008
Revision 4	23 July 2009

Procedure for the selection and appointment of an external auditor

1 Introduction

The selection and appointment process is the responsibility of the Committee. When a vacancy occurs, the Committee will meet and determine whether a replacement auditor should be selected by way of a formal tender or some other appropriate method.

The Committee recommends a preferred external auditor to the Board. If the Board thinks fit, it will appoint the recommended external auditor. The appointment of an external auditor is subject to ratification by shareholders at the next annual general meeting.

2 Role of Chief Financial Officer

If requested to do so by the Committee, the Chief Financial Officer will assist the Committee in the selection and appointment process.

If requested to do so by the Committee, the Chief Financial Officer will submit to the Committee the details of a proposed external auditor together with a written supporting submission.

3 Formal tender

3.1 Request for submissions

If the Committee elects to undertake a formal tender process, the Chief Financial Officer will prepare a draft request for submissions that will be reviewed by the Committee.

The final request for submissions must contain sufficient information to enable a potential auditor to provide a proposal and fee estimate to Macarthur Coal. Such information should include details about Macarthur Coal, its operations, its key personnel and any other relevant information about the structure of Macarthur Coal and its financial statements.

The Chief Financial Officer will assist the Committee in distributing the request for submissions and arranging for candidates to meet with the selection panel.

3.2 Selection panel

The Committee will establish a selection panel comprising the Committee, the Chief Financial Officer and any other person the Committee considers appropriate to assess the suitability of the external auditor. The Committee will consult with the other members of the Selection Panel as to the preferred auditor however, it is the responsibility of the Committee to recommend a preferred external auditor to the Board.

4 Selection criteria

The candidate selected by the Committee as the preferred external auditor must satisfy the selection criteria whether or not it is selected by way of a formal tender.

4.1 Fees

A candidate must provide a fixed fee quotation for its audit services. However price will not be the sole determining factor in the external auditor's selection.

4.2 Independence

The external auditor must be independent and be seen to be independent from Macarthur Coal.

A candidate must satisfy the Committee that it is independent and outline the procedures it has in place to maintain its independence.

The independence of the external auditor is integral to the role of auditor and the Committee will give due consideration to this requirement when selecting a preferred auditor for recommendation to the Board.

4.3 Material matters

A candidate must outline its proposed procedures for addressing any issue of material significance or matter of disagreement with Macarthur Coal management.

4.4 Non-audit work

A candidate must detail its approach to the provision of non-audit related services to Macarthur Coal.

The Committee must consider the circumstances in which Macarthur Coal might use the external auditor for non-audit services. Matters to be considered include the potential quantum of non-audit fees and any circumstance where the external auditor may be required to review and rely on work conducted by it in a non-audit capacity.

4.5 Other matters

The selection criteria may include such other matters as the Committee deems fit.

5 Rotation of external audit engagement partner

The Committee will ensure that the external auditor has arrangements in place for the rotation of the audit engagement partner.

The audit engagement partner for the audit must rotate every five years.

6 Review of audit arrangements

The Committee will review the external auditor's performance annually. The review will include obtaining feedback from the Chief Financial Officer and other members of senior management regarding the quality of the audit service.

AUDIT COMMITTEE INDUCTION FRAMEWORK

A formal induction program for new committee members is essential, and should complement the board induction program.

Information package

An information package should be prepared and include:

- ARMC charter
- ARMC papers and minutes for the previous 12 months
- Outline of the resources used by the ARMC to undertake its duties
- Details of external auditor
- Regulatory and compliance framework for the company's business
- Risk management policies
- Risk management and control framework & material business risks
- Internal auditor's work plan

Meetings

Meetings to discuss the committee charter, how the committee operates, the main business and financial dynamics and other matters of significance could be held with the:

- ARMC chairman
- CEO
- CFO
- Internal auditor
- Company secretary
- External auditor

In addition, it may be useful to schedule discussions with other senior management regarding key operations and hold a follow-up meeting with the ARMC chairman to discuss any issues arising from the induction program.

Annexure 3: Audit & Risk Management Annual Agenda

	Scheduled Meetings				
	Dec	Feb	Mar	Jul	Aug
Foundation					
Review Audit Committee Charter and annual agenda				X	
Assess ARMC skills and independence				X	
Determine number of meetings for forthcoming year				X	
Conduct an assessment of the committee's performance against its charter and provide a report to the Board				X	
Consider committee member rotation and succession				X	
Assessment of financial information & external reporting					
Review significant accounting and reporting issues as they arise	X	X	X	X	X
Review financial matters affecting the half year	X			X	
Review and endorse half year financial statements		X			
Review financial matters affecting year end				X	
Review and approve annual financial statements					X
Review attestations of CEO and CFO for Australian reporting		X			X
Review with management its evaluation of internal control structure and procedures for financial reporting, including any significant deficiencies or material weaknesses (through controls checklist and management representation letters)		X			X
Review process, policies and procedures for continuous disclosure obligations	X				
Review conflicts of interest and related party transactions including disclosures		X			X
Review directors report and annual report					X
External auditors					
Review external audit plan and scope of audit work	X				
Review and approve terms of engagement and fees for external auditors	X				
Consider policy in relation to non-audit services					X
Consider objectivity/independence and obtain independence declaration from external auditor					X
Review external auditors report and findings and progress on management's actions		X			X
Discuss implications of any significant changes in accounting standards	X		X	X	
Discuss appropriateness of accounting policies, estimates and judgements	X		X	X	
Discuss external auditors' view on control environment, including fraud risk management		X			X
Meet with external auditors without management present					X
Internal auditors					
Approve appointment and review performance			X		
Review internal audit charter/terms of appointment			X		

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Review internal audit plan			X		
Review progress against the audit plan	X		X	X	
Review significant internal audit reports and findings	X		X	X	
Review progress on management actions	X		X	X	
Review the performance of internal audit, including organisational structure, qualifications and independence			X		
Meet with internal auditors without management present	X				
Risk Management and internal controls					
Review risk management policy and risk management system	X			X	
Review and monitor all financial risk management policies	X			X	
Review material business risks and mitigation plans and report to the board	X			X	
Review operational effectiveness of risk policies and procedures and internal control environment		X			X
Review the effectiveness of the company's insurance activities	X				
Receive reports on counterparty credit risk	X				
Receive reports on commissions paid to marketing agents	X				
Compliance					
Monitor legal and regulatory matters that may have a material impact on the company	X	X	X	X	X
Receive reports as required on litigation, claims, fraud, theft, breaches of law, policy codes of conduct etc..	X	X	X	X	X
Review assurance reports from management, and correspondence (if any) from regulatory bodies	X			X	
Monitor compliance with continuous disclosure requirements	X	X	X	X	X
Other responsibilities					
Review whistleblowing arrangements and reports	X			X	
Review fraud policy and controls	X			X	
Review report to the shareholders on the role and responsibility of the committee					X
Reporting					
Maintain minutes and report to the board	X	X	X	X	X