

1. INTRODUCTION

1.1 ASX Recommendations

This charter has been drafted in accordance with the ASX Recommendations. In particular, this charter satisfies ASX Recommendation 4.1 which requires a listed entity to have an audit committee and disclose its charter.

1.2 Purpose of the policy

- (a) The Audit Committee of the Board of the Company has been established to assist the Board in discharging its responsibilities on a range of matters relating to:
 - (i) the external reporting of financial information for the Company;
 - (ii) the internal control framework for the Company;
 - (iii) the internal auditor, internal audit function and the external auditors; and
 - (iv) the Company's risk management framework.
- (b) The Board has delegated authority to the Audit Committee to fulfil its responsibilities as set out in this charter and may make other delegations to the Audit Committee from time to time.

1.3 Aims of the Audit Committee

- (a) The Audit Committee shall take reasonable action and operate with the aims of:
 - (i) ensuring the integrity of external financial reporting of the Company;
 - (ii) reviewing the adequacy of the Company's corporate reporting processes and internal control framework;
 - (iii) safeguarding the independence of the external auditor;
 - (iv) ensuring that Directors and senior management are provided with financial and non-financial information that is of high quality and relevant to the judgements to be made by them;
 - (v) ensuring that controls are established and maintained in order to safeguard the Company's financial and physical resources.

- (vi) ensuring that systems or procedures are in place so that the Company complies with relevant statutory and regulatory requirements; and
- (vii) assessing financial risks arising from the Company's operations, and considering the adequacy of measures taken to moderate those risks.

1.4 Who does this policy apply to?

This policy applies to the Company, its Employees, Directors, contractors, suppliers and consultants.

1.5 Definitions

- (a) **ASX** means the Australian Securities Exchange.
- (b) **ASX Recommendations** means ASX Corporate Governance Principles and Recommendations (4th Edition).
- (c) **Audit Committee** means the audit committee of the Board.
- (d) **Board** means the board of directors of Waterco Limited.
- (e) **Company** means Waterco Limited ACN 002 070 733.
- (f) **Directors** means directors of the Company.
- (g) **Employees** means any person employed by the Company on a full-time, part-time or casual basis.

2. MEMBERSHIP

- 2.1 There will be no fewer than three members.
- 2.2 Members shall be appointed by the Board and the appointment shall be for a defined period.
- 2.3 The majority of members shall be independent Directors and have expertise in risk, finance, engineering, accounting and financial reporting, or management reporting and a sufficient understanding of the industry in which the Company operates. However, membership shall reflect a mix of skills and experience. To that end, the Board may engage outside experts to strengthen the Audit Committee (either as members or advisers).
- 2.4 All members of the Audit Committee will be non-executive Directors.
- 2.5 The chair of the Audit Committee shall be an independent Director who is not also chair of the Board.

3. AUTHORITY

- 3.1 The Audit Committee shall make determinations about matters for which it is responsible, save where this charter limits the Audit Committee's authority to that of making recommendations to the Board.

- 3.2 The Audit Committee shall be provided with secretarial resources and other services necessary to enable it to perform its functions.
- 3.3 The Audit Committee has the authority to require members of management or others to attend meetings of the Audit Committee, to answer questions of the Audit Committee and to provide advice or information.
- 3.4 The Audit Committee has the authority to access the Company's documents and records and request any information it requires to carry out its function from the Board or management.
- 3.5 The Audit Committee is entitled to seek legal or other specialist advice, where the Audit Committee deems it appropriate.
- 3.6 Members of the Audit Committee shall be entitled to training relating to issues specific to the industry in which the Company operates.
- 3.7 The Audit Committee has the right to contact and interview auditors, internal and external, without management present.

4. RESPONSIBILITIES OF THE AUDIT COMMITTEE

4.1 Generally

- (a) To safeguard the integrity of the Company's corporate reporting function and bring the transparency, focus and independent judgement required to oversee that process.
- (b) To remain informed about changes in statutory requirements, accounting standards, or guidelines affecting financial reporting.
- (c) To assess whether the resources devoted to the accounting function of the Company (including training and succession planning) are adequate to ensure that reporting arrangements are of high quality and to advise the Board of any identified shortcomings.
- (d) To ensure that periodic assessments are undertaken of the financial risks faced by the Company in the course of its operating activities, and to review and agree on the arrangements undertaken to manage or mitigate those risks.
- (e) To consider and review the adequacy of internal controls, having regard to risks.
- (f) To consider, periodically review, and approve schedules of delegated authorities operating within the Company.
- (g) To provide a direct line of communication so that Employees may raise issues of concern relating to the management of the Company's physical and financial resources, or to the accuracy or sufficiency of information being provided to managers or the Board, or Board sub-committees.
- (h) To provide a statement in the Company's annual report describing the Audit Committee's objectives and responsibilities, and how it has discharged those responsibilities during the past financial year.

- (i) To monitor the timely resolution of significant internal control deficiencies identified by the external auditor, internal auditor, management or regulators.
- (j) To review the Company's strategy in relation to compliance with the Corporations Act and other applicable laws.

4.2 Related party transactions and executive expenditure

- (a) To consider, and if thought appropriate, approve any proposed related party transactions.
- (b) To review the adequacy of internal controls relating to executive travel and entertainment, if thought appropriate.

4.3 Responsibilities in relation to independent external audit

- (a) To conduct audit tenders periodically and, where appropriate, recommend the appointment of a new auditor or removal of an existing auditor.
- (b) To propose to the Board the terms of the contractual engagement with the auditor, over and above statutory requirements.
- (c) To oversee the independence of the external auditors.
- (d) To review the audit plan proposed by the auditor and suggest potential improvements or changes in coverage, where appropriate.
- (e) If considered appropriate, to approve any arrangements for the provision of non-audit services that will not threaten the independence of the auditor and make recommendations to the Board for approval the disclosure relating to the provisions of non-audit services provided by the external auditor (including whether the provision of non-audit services is compatible with auditor independence requirements) for inclusion in the annual report.
- (f) To review the fees payable to external auditor for audit and non-audit work.
- (g) To review the terms, scope and adequacy of the audit engagement.
- (h) To seek the external auditor's assessment of the quality and coverage of internal audit work and of the competence of internal audit staff.
- (i) To assess the performance of the external auditor on an annual basis, and to consider whether it is appropriate to propose to the Board that an auditor be removed, or that competitive tenders for audit work be sought. Where the external auditor provides non-audit services, the report should state whether the audit committee is satisfied that provision of those services has not compromised the auditor's independence.

4.4 Responsibilities in relation to internal reporting

- (a) To consider the completeness and quality of financial and operational information being provided to the Board, and to suggest ways in which those reports might be improved.

- (b) To periodically seek advice from internal and external auditors regarding the completeness and quality of financial and operational information being provided to senior management and the Board. To undertake post-investment reviews of major transactions or capital investments, with the aim of assessing the adequacy of the analysis undertaken before decisions were made to proceed with those transactions or investments, so that the Company can learn from those experiences and improve its analytical capabilities and reporting processes.

4.5 Responsibilities in relation to internal audit

- (a) To review and make recommendations to the Board on the appointment, replacement, re-assignment or dismissal of the internal auditor.
- (b) To review the organisation and quality of internal audit staff.
- (c) To approve the Company's internal audit work plan, and to assess the scope and adequacy of the internal audit work plan on a regular basis;
- (d) To assess and make recommendations in respect of the independence, objectivity and performance of the internal audit function.
- (e) To review with the internal auditor and the external auditor the co-ordination of audit efforts to ensure the efficient effective use of audit resources.
- (f) Or, if the internal audit function is outsourced:
 - (i) To review the terms and scope of the engagement of the internal auditor.
 - (ii) Periodically, conduct audit tenders and recommend the appointment of a firm to undertake internal auditing.
 - (iii) To review the performance of the internal auditor.
- (g) To make recommendations for the appointment, or if necessary, the dismissal of the head of internal audit.

4.6 Responsibilities in relating to external reporting

- (a) To review the statement of accounting policies and other notes in the draft accounts, and to gain an awareness of the areas in which management discretion in the choice of accounting methods has been exercised, to make determinations in relation to the appropriateness of accounting choices / accounting policies, and also to ensure that Notes to the financial statements describing the choice and application of accounting policies are informative.
- (b) To review draft yearly financial statements, prior to endorsement by the Board for submission to shareholders for adoption.
- (c) To review half yearly and other interim reports for compliance with regulatory requirements.

- (d) To review and make recommendations as to whether the Company's financial statements reflect the understanding of the Audit Committee members of, and otherwise provide a true and fair view of, the financial position and performance of the Company.
- (e) To review reporting arrangements to ensure that the company meets its obligations to undertake continuous disclosure to the market and regulatory agencies.

4.7 Responsibilities in relation to risk management

- (a) To review management's approach to the management of risks (including regulatory, economic, environmental, social, weather and market conditions, the adequacy of insurance arrangements, business continuity planning, and exposures to movements in exchange rates or interest rates), including reviewing reports from management on any new and emerging sources of risks and the risk controls and mitigation measures that management has put in place to deal with those risks, significant incidents, themes and trends reported.
- (b) To assess whether audit plans developed by the internal and external auditor are consistent with the financial and operating risks facing the Company.
- (c) To meet and consult regularly with other committees within the Company framework to consider material financial and non-financial risks relevant to executive performance and remuneration, and share information about key matters where appropriate to ensure ongoing and consistent oversight.
- (d) To monitor management's performance against the Company's risk management framework, including whether it is operating within the risk appetite set by the Board.
- (e) To review any material incident involving fraud or a break down of the Company's risk controls and the "lessons learned".
- (f) To make recommendations to the Board in relation to changes that should be made to the Company's risk management framework or to the risk appetite set by the Board.

4.8 Responsibilities in relation to compliance

To ensure that the procedures established to monitor compliance with statutory requirements, regulations, and contractual obligations are appropriate.

5. PROCEDURES

5.1 Attendance

- (a) All Directors who are not members of the Audit Committee shall have the right to attend meetings of the Audit Committee.
- (b) The chief executive officer and the chief financial officer shall be invited to attend all meetings of the Audit Committee (though not necessarily for all agenda items).
- (c) The external auditor shall be invited to attend meetings, as appropriate (though not

necessarily for all agenda items).

- (d) The internal auditor shall be invited to attend meetings, as appropriate.

5.2 Meetings

- (a) The Audit Committee's secretary shall propose a schedule of Audit Committee meetings to ensure that all of the Audit Committee's responsibilities are addressed during the financial year, and to ensure that communications with internal and external auditors are maintained on a regular basis.
- (b) The Audit Committee shall meet as frequently as required but shall meet at least four times per annum.
- (c) Meetings may be called by the chair of the Audit Committee, or at the request of the chair of the Board.
- (d) A quorum for a meeting of the Audit Committee will comprise any two independent non-executive Director committee members. A duly convened meeting of the committee at which a quorum is present is competent to exercise all or any of the authorities, powers or discretions vested in or exercisable by, the Audit Committee.
- (e) In the absence of the Chair, the remaining members present will elect one of their number as chair of the meeting.
- (f) The chair is responsible for leading the Audit Committee and oversee the processes for the Audit Committee's performance of its role in accordance with this charter.
- (g) The chair has specific responsibilities to:
 - (i) foster an open, inclusive and, where appropriate, challenging discussion by the Audit Committee;
 - (ii) set the agenda with the secretary, ensuring that appropriate time and attention is devoted to matters within the responsibilities of the Audit Committee; and
 - (iii) liaise with the chief financial officer, the internal auditor and the external auditor to ensure the Audit Committee has the information necessary to enable effective decision-making.
- (h) Where the Audit Committee is unable to reach consensus on a matter, the chair of the committee will report the matter to the Board.

5.3 Secretarial services and minutes

- (a) The Board shall appoint an executive to act as secretary to the Audit Committee. The secretary shall (in conjunction with the chair) be responsible for:

- (i) drawing up the agenda, supported by documentation, and circulating that material to Audit Committee members prior to each meeting;
 - (ii) preparing draft minutes of the meetings of the Audit Committee, circulating minutes to members of the Audit Committee and the Board and ensuring that the minutes from the previous meeting is adopted at the next meeting, or beforehand; and
 - (iii) maintaining registers.
- (b) Reports from the internal auditor and the external auditor shall be provided to members prior to the meeting.
 - (c) The secretary shall provide draft minutes of meetings and provide them for review by the chair of the Audit Committee as soon as is practicable.
 - (d) Minutes shall be accompanied by an 'action plan' detailing matters that require attention as the result of the Audit Committee's deliberations.
 - (e) Copies of minutes of Audit Committee meetings shall be provided to the Board at its next meeting after those draft minutes have been reviewed by the chair of the committee.

5.4 Reporting relationships with the external auditor

- (a) The external auditor normally shall communicate directly with the Audit Committee, while recognising that in certain situations the auditors may wish to communicate with the Board or other sub-committees of the Board.
- (b) The chair of the Audit Committee shall be provided with draft management letters or other reports at the same time as they are provided to management (but shall, except in exceptional circumstances, not pursue enquiries until management have had an opportunity to respond to the draft report).
- (c) The chair of the Audit Committee shall provide opportunities for the external auditor to meet with the Audit Committee without executive Directors or other management representatives present.

5.5 Reporting relationships with the internal auditor

- (a) The Audit Committee is the 'client' of the internal auditor (save where the Audit Committee has agreed with management that certain projects be undertaken for the assistance of management). As such, final reports shall be addressed to the Audit Committee.
- (b) The chair of the Audit Committee shall be provided with draft reports from the internal auditor at the same time as management (but shall, except in exceptional circumstances, not pursue enquiries until management have had an opportunity to respond to the draft report).
- (c) The chair of the Audit Committee shall provide opportunities for the internal auditor to meet with the committee without executive Directors or other management representatives present.

5.6 Reporting to the Board

- (a) The Board of Directors shall be provided with minutes of Audit Committee meetings (and oral reports of any meetings held subsequent to the last Board meeting for which minutes have yet to be prepared) – such minutes or reports to describe major actions undertaken by the Audit Committee.
- (b) Following each Audit Committee meeting, the secretary must prepare and distribute a list of any recommendations to management or the Board that arose out of the meeting.

5.7 Confidential communications from Employees

Employees shall be advised that they may contact the chair of the Audit Committee directly, where they have concerns (on reasonable grounds) regarding potential fraud or misappropriation, weaknesses in internal controls, or the adequacy or accuracy of information being provided within the Company to senior managers or the Board. Contact postal and/or email addresses shall be provided to Employees for this purpose. Such communications (which shall be in writing) shall be treated as confidential. Employees should explain whether the matters have previously been discussed with an Employee's manager, and if not, why the Employee has chosen to report to the Audit Committee.

5.8 Maintenance of records

- (a) The secretary of the Audit Committee shall maintain records of recommendations made by the external and internal auditors. Such records shall record a summary of management responses to those recommendations, and whether the recommendations were adopted, implemented, or rejected.
- (b) The secretary shall provide to the Audit Committee at each meeting a summary, highlighting management responses to recent recommendations and any recommendations that have yet to be resolved.
- (c) The chair of the Audit Committee shall maintain records of Employee confidential communications, and how they were dealt with.

5.9 Review of delegations

Schedules of delegations are to be reviewed at least annually, or whenever there are major changes in the management structure of the Company.

5.10 Review of committee performance

The Audit Committee shall review its performance annually, with particular attention being paid to the extent to which it has met its responsibilities in terms of this charter.

5.11 Publication and review of the Charter

- (a) The charter shall be made available on the Company's web site.
- (b) The charter shall be reviewed and updated periodically and when necessary to meet the

operational requirements of the Company and changes in the law, initially by the Audit Committee and then by the Board.

6. REFERENCES

- 6.1 Risk management framework
- 6.2 Board Charter
- 6.3 Whistleblower policy