



# VALHI, INC.

## AUDIT COMMITTEE CHARTER

*AMENDED AND RESTATED AUGUST 10, 2005*

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### **ARTICLE I. PURPOSE**

The audit committee assists the board of directors' oversight responsibilities relating to the financial accounting and reporting processes and auditing processes of the corporation. The audit committee shall assist in the oversight of:

- the integrity of the corporation's financial statements and internal control over financial reporting;
- the corporation's compliance with legal and regulatory requirements;
- the independent auditor's qualifications and independence; and
- the performance of the corporation's internal audit function and independent auditor.

### **ARTICLE II. RELATIONSHIP WITH THE CORPORATION, MANAGEMENT AND THE INDEPENDENT AUDITOR**

Management is responsible for preparing the corporation's financial statements and maintaining internal control over financial reporting. The corporation's independent auditor is responsible for auditing the corporation's financial statements and internal control over financial reporting. The activities of the audit committee are in no way designed to supersede or alter these traditional responsibilities. The corporation's independent auditor and management have more time, knowledge and detailed information about the corporation than do the audit committee members. Accordingly, the audit committee's role does not provide any special assurances with regard to the corporation's financial statements or internal control over financial reporting. Each member of the audit committee, in the performance of such member's duties, will be entitled to rely in good faith upon the information, opinions, reports or statements presented to the audit committee by any of the corporation's officers, employees, agents, counsel, experts, auditors or any other person as to matters such member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the corporation, and nothing in this charter will, or will be deemed to, decrease or modify in any manner adverse to any member of the audit committee such member's right to rely on such information, opinions, reports or statements.



Nothing in this charter will, or will be deemed to, adversely affect in any manner the rights of members of the committee to indemnification and advancement of expenses under the corporation's certificate of incorporation or bylaws, or under any contract, agreement, arrangement or understanding that may benefit such member. In addition, notwithstanding any other provision of this charter, no provision of this charter will, except to the extent required by applicable law, rule or regulation, be construed to create any duty, liability or obligation on the part of the committee or any of its members.

### **ARTICLE III.** ***AUTHORITY AND RESOURCES***

The audit committee shall have the authority and resources necessary or appropriate to discharge its responsibilities. The audit committee shall be provided with full access to all books, records, facilities and personnel of the corporation in carrying out its duties. The audit committee shall have the sole authority with regard to the independent auditor as set forth in **Article V**, and the authority to engage independent counsel and other advisors, as it determines is necessary to carry out its duties. The corporation shall provide appropriate funding, as the audit committee determines is necessary or appropriate in carrying out its duties, for the committee to engage and compensate the independent auditor or legal counsel or other advisors to the committee, and to pay the committee's ordinary administrative expenses.

### **ARTICLE IV.** ***COMPOSITION AND MEETINGS***

The board of directors shall set the number of directors comprising the audit committee from time to time, which number shall not be less than three. The board of directors shall designate a chairperson of the audit committee. The number of directors comprising the audit committee and the qualifications, which members will all be financially literate with at least one being an audit committee financial expert, and independence of each member of the audit committee shall at all times satisfy all applicable requirements, regulations or laws, including, without limitation, the rules of any exchange or national securities association on which the corporation's securities trade. Simultaneous service on more than three non-affiliated public company audit committees requires a special determination by the board of directors and, if required, disclosure in the annual proxy statement. The board of directors shall determine, in its business judgment, whether the members of the audit committee satisfy all such requirements, regulations or laws.

The audit committee shall meet at least quarterly and as circumstances dictate. Regular meetings of the audit committee may be held with or without prior notice at such time and at such place as shall from time to time be determined by the chairperson of the audit committee, any of the corporation's executive officers or the secretary of the corporation. Special meetings of the audit committee may be called by or at the request of any member of the audit committee, any of the corporation's executive officers, the secretary of the corporation or the independent auditor, in each case on at least twenty-four hours notice to each member.

A majority of the audit committee members shall constitute a quorum for the transaction of the audit committee's business. The audit committee shall act upon the vote of a majority of



its members at a duly called meeting at which a quorum is present. Any action of the audit committee may be taken by a written instrument signed by all of the members of the audit committee. Meetings of the audit committee may be held at such place or places as the audit committee shall determine or as may be specified or fixed in the respective notice or waiver of notice for a meeting. Members of the audit committee may participate in audit committee proceedings by means of conference telephone or similar communications equipment by means of which all persons participating in the proceedings can hear each other, and such participation shall constitute presence in person at such proceedings.

The audit committee may invite to its meetings any director, any member of management of the corporation and any other persons it deems appropriate in order to carry out its responsibilities. The audit committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

## **ARTICLE V. RESPONSIBILITIES**

To fulfill its responsibilities, the audit committee shall perform the following activities.

### ***Financial Statements and Disclosures***

- Review and discuss the corporation's annual audited financial statements and quarterly unaudited financial statements with management and the independent auditor, and the corporation's related disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations" prior to the annual and quarterly financial statements being filed in the corporation's Forms 10-K and Forms 10-Q, as applicable.
- Review and discuss the corporation's internal control over financial reporting with management and the independent auditor, including the corporation's annual audited management report on internal control over financial reporting, and the corporation's related disclosure under "Disclosure Controls and Procedures."
- Ascertain from officers signing certifications whether there existed any fraud or any significant deficiencies or material weaknesses in the corporation's internal control over financial reporting.
- Recommend to the board of directors, if appropriate, that the audited financial statements be included in the corporation's Annual Report on Form 10-K to be filed with the U.S. Securities and Exchange Commission.
- Generally discuss (*i.e.*, a discussion of the types of information to be disclosed and the type of presentation to be made) with management and the independent auditor, as appropriate, earnings press releases and financial information and earnings guidance provided to analysts and rating agencies. The audit committee need not discuss in advance each earnings release or each instance in which the corporation may provide earnings guidance.



- Prepare such reports of the audit committee for the corporation's public disclosure documents as applicable requirements, regulations or laws may require from time to time, which includes the audit committee report as required by the U.S. Securities and Exchange Commission to be included in the corporation's annual proxy statement.
- Review significant accounting, reporting or auditing issues, including recent professional and regulatory pronouncements or proposed pronouncements, and understand their impact on the corporation's financial statements and internal control over financial reporting.

### *Independent Auditor*

- Appoint, compensate, retain and oversee (including the resolution of disagreements between management and the independent auditor regarding financial reporting or internal control over financial reporting) the work of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the corporation.
- Provide that the independent auditor report directly to the audit committee.
- Annually review the qualifications, independence and performance of the independent auditor, including an evaluation of the lead partner
- Receive such reports and communications from the independent auditor and take such actions as are required by auditing standards generally accepted in the United States of America or applicable requirements, regulations or laws, including, to the extent so required, the following:
  - prior to the annual audit, review with management and the independent auditor the scope and approach of the annual audits of the corporation's financial statements and internal control over financial reporting;
  - review any changes in the independent auditor's scope during the audit, and after the annual audit, review with management and the independent auditor the independent auditor's reports on the results of the annual audit;
  - review with the independent auditor any audit problems or difficulties and management's response;
  - review with the independent auditor prior to filing the audit report with the U.S. Securities and Exchange Commission the matters required to be discussed by the Statement on Accounting Standards 61, as amended, supplemented or superseded; and



- at least annually, obtain and review a report by the independent auditor describing:
  - the independent auditor's internal quality control procedures;
  - any material issues raised by the most recent internal quality control review, or peer review, of the independent auditor or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such issues; and
  - all relationships between the independent auditor and the corporation in order to assess the auditor's independence, including the written disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended, supplemented or superseded.
- Establish preapproval policies and procedures for audit and permissible non-audit services provided by the independent auditor. The audit committee shall be responsible for the preapproval of all of the independent auditor's engagement fees and terms, as well as all permissible non-audit engagements of the independent auditor, as required by applicable requirements, regulations or laws. The audit committee may delegate to one or more of its members who are independent directors the authority to grant such preapprovals, *provided* the decisions of any such member to whom authority is delegated shall be presented to the full audit committee at its next scheduled meeting.
- Set clear hiring policies for employees or former employees of the independent auditor.
- Ensure that significant findings and recommendations made by the independent auditor are received and discussed on a timely basis with the audit committee and management.

### ***Other Responsibilities***

- Discuss periodically with management the corporation's policies regarding risk assessment and risk management.
- Meet separately, periodically, with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditor.
- Establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous



submission by employees of concerns regarding questionable accounting or auditing matters.

- Review periodically the reports and activities of the internal audit function and the coordination of the internal audit function with the independent auditor.
- Conduct an annual evaluation of its own performance.
- Report regularly to the board of directors on its oversight responsibilities set forth in **Article I**. The report may be made orally by the audit committee chairman or any other member of the committee designated by the committee chairman.
- Maintain minutes or other records of meetings and activities of the audit committee.
- Review and reassess this charter periodically. Report to the board of directors any suggested changes to this charter.
- Meet periodically with officers of the corporation responsible for legal and regulatory compliance by the corporation. On at least an annual basis, review with the corporation's tax director any tax matters that could have a significant impact on the corporation's financial statements.

**ARTICLE VI.**  
**MISCELLANEOUS**

The audit committee may from time to time perform any other activities consistent with this charter, the corporation's charter and bylaws and applicable requirements, regulations or laws, as the audit committee or the board of directors deems necessary or appropriate.

**ADOPTED BY THE BOARD OF DIRECTORS  
OF VALHI, INC. AS OF AUGUST 10, 2005.**

/s/ A. Andrew R. Louis  
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*A. Andrew R. Louis, Secretary*