

RISK AND AUDIT COMMITTEE TERMS OF REFERENCE



1 Role

- 1.1 The role of the Risk and Audit Committee (**Committee**) is to assist the Board of South32 Limited (**Board**) to carry out its role in overseeing the risk management and audit practices of South32 Limited (**Company**) and its related bodies corporate (together, the **Group**). The Committee is accountable to the Board for its performance.
- 1.2 In discharging its responsibilities under these terms of reference, the Committee will have regard to the following:
- (a) the integrity of the Group's financial reports and reporting processes;
 - (b) audit processes (including both the internal audit function and the engagement of the external auditor);
 - (c) the effectiveness of the systems of internal control and risk management;
 - (d) the Group's systems for compliance with applicable legal and regulatory requirements within the Committee's area of responsibility; and
 - (e) other matters requiring the approval of the Committee under the Authorities Framework or referred by the Board from time to time, including matters relating to the capital structure of the Group.
- 1.3 In making decisions and recommendations, the Committee may take into account:
- (a) these terms of reference;
 - (b) legal requirements, including the provisions and recommendations in applicable listing rules and standards of corporate governance applicable in each of the jurisdictions in which the Company is listed;
 - (c) key market trends and the broader external environment, in particular the existing and developing corporate governance and regulatory environment; and
 - (d) any other factors it deems relevant.

2 Responsibilities

Corporate Reporting

- 2.1 The Committee will oversee the Group's corporate reporting processes which should be designed to safeguard the integrity of the Group's corporate reporting and facilitate independent verification. In particular, the Committee is responsible for:
- (a) reviewing management's processes for compliance with laws, regulations and other requirements relating to the preparation of corporate and financial reporting by the Group;
 - (b) reviewing the Company's corporate and financial reporting and disclosure processes and making recommendations to the Board in relation to the adequacy of those reporting processes

(including the process to verify the integrity of any periodic corporate reporting released by the Company that is not audited or reviewed by the external auditor);

- (c) overseeing the process for compliance with periodic reporting obligations under the applicable listing rules, laws and regulations;
- (d) asking the external auditor for an independent judgment about the appropriateness of the accounting principles, and the clarity of financial disclosure practices, used by the Group;
- (e) assessing information from internal and external auditors which management identifies as significant for financial reports;
- (f) reviewing and assessing the appropriateness of material estimates, accounting judgments and significant choices exercised by management in preparing the Group's financial statements (including the solvency and going concern assumptions) by:
 - (i) examining the processes used; and
 - (ii) seeking verification from internal and external auditors;
- (g) assessing whether the Group's financial statements reflect the Committee's understanding of, and provide a true and fair view of, the Group's financial position and performance;
- (h) overseeing the preparation of financial reports and reviewing the results of external audits of these reports;
- (i) overseeing that appropriate risk management and internal control processes are in place to form the basis upon which the Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**) make their declarations to the Board under section 295A of the *Corporations Act 2001* (Cth) and the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*; and
- (j) recommending to the Board whether the draft Group financial statements and financial report should be approved based on the Committee's assessment of them.

2.2 The Committee is responsible for reviewing and monitoring the reporting of related party transactions in accordance with financial reporting obligations.

External Audit

2.3 The Committee is responsible for overseeing the external auditor's role in the corporate reporting process. In particular, the Committee is responsible for:

- (a) making recommendations to the Board on the appointment and removal of the external auditor;
- (b) agreeing and approving the terms of engagement of the external auditor (including the audit plan) before the start of each audit and in doing so will review the audit plan and require that material risk areas identified are incorporated in the audit plan;
- (c) approving the external auditor's fees for the audit (with such fee being appropriate so as to enable an effective, comprehensive and complete audit to be conducted);
- (d) monitoring and reviewing the independence of the external auditor and reviewing the external auditor's fees for non-audit services;

- (e) reviewing and recommending to the Board for approval the Group's *Provision of Non-Audit Services Policy*;
- (f) determining whether to approve the provision of non-audit services by the external auditor in accordance with the Group's *Provision of Non-Audit Services Policy*; where required, and report to the Board on any matters in respect of which it considers that action or improvement is needed;
- (g) inviting the external auditor to attend Committee meetings to review the audit plan, discuss audit results and consider the implications of external audit findings;
- (h) meeting with the external auditor (either on its own initiative, or if requested by the external auditor) with or without management present as often as considered necessary including to discuss, to the extent the Committee considers relevant, any major issues, problems and reservations arising from the interim review and final audit, any accounting and audit judgements, levels of error identified and the effectiveness of the audit;
- (i) raising with the external auditor any specific points of divergence with the Company's management;
- (j) reviewing and monitoring, at least annually, the effectiveness of the external auditor and assessing their performance;
- (k) reviewing and monitoring the scope and adequacy of the external audit, including identified risk areas and any additional procedures with the external auditor on a periodic basis;
- (l) reviewing representation letters signed by management and considering whether the information provided in the letter is complete and appropriate;
- (m) monitoring management's response to the external auditor's findings and recommendations and the closure of matters raised; and
- (n) making recommendations to the Board on the rotation of the audit engagement partner.

Internal audit

2.4 The Committee will oversee the effectiveness, independence and objectivity of the internal audit and is responsible for:

- (a) approving the appointment, terms of engagement and removal of the VP Group Assurance (being the head of the internal audit function);
- (b) reviewing the role, responsibilities and resources of the internal audit function;
- (c) meeting with the VP Group Assurance:
 - (i) without management present at least once per year; and
 - (ii) as and when the Committee considers it necessary, or on request from the VP Group Assurance, with or without other members of management being present;
- (d) evaluating the scope, effectiveness and adequacy of the internal audit plan and work program;

- (e) approving the internal audit plan (as a whole), including:
 - (i) the Internal Audit Plan (excluding the health, safety, environment and our social performance (**Sustainability**) component), which will be submitted annually to the Committee for approval; and
 - (ii) the Sustainability Internal Audit Plan, which will be submitted annually to the Committee for approval after the Sustainability Committee has endorsed;
- (f) considering the implications of internal audit findings;
- (g) overseeing the performance and objectivity of the internal audit function, including having access to the internal audit function without management present;
- (h) overseeing the co-ordination of the Company's audit functions between the internal auditor and the external auditor; and
- (i) evaluating management's responsiveness to the internal auditor's findings and recommendations.

Risk management

- 2.5 The Committee will oversee management's implementation of the risk management framework in light of the risk appetite set by the Board and is responsible for:
- (a) overseeing management's design, implementation and ongoing improvement of an appropriate and effective system of risk management which:
 - (i) aims to identify, understand, protect against and respond to material risks; and
 - (ii) is developed and reviewed with input from internal and external auditors and subject matter experts, considering relevant standards and industry guidance;
 - (b) reviewing material breaches of the Company's *Code of Business Conduct* and *Anti-Bribery and Corruption Policy* and reports of material concerns under the Company's *Speak Up Policy*;
 - (c) reviewing any material incident involving fraud or a breakdown of the Company's risk controls and the "lessons learned";
 - (d) overseeing the Group's insurance program, having regard to the Company's business and the insurable risks associated with its business;
 - (e) reviewing any significant changes to material and strategic risks identified and managed by management (including new and emerging risks) and considering whether they remain within the risk appetite set by the Board with input from management, internal and external auditors and subject matter experts, considering relevant standards and industry guidance;
 - (f) making recommendations to the Board including in relation to:
 - (i) the internal and external risk factors that could adversely affect the Company's prospects for future financial years, for inclusion in the operating and financial review section of the Directors' Report; and
 - (ii) the Company's annual reporting to the extent it relates to matters that fall within the responsibility of the Committee (including whether the review of the Company's risk

management framework has taken place and if appropriate, insights gained from the review and changes made as a result, and whether the Company has any material exposure to environmental and social risks and if so, how they intend to manage those risks);

- (g) considering any report from the Sustainability Committee on material Sustainability risks; and
- (h) reviewing the effectiveness of the Group's policies, processes and reporting systems for detecting, reporting and preventing inappropriate business conduct, fraud, breaches of anti-corruption laws, and whistle-blowing.

Capital structure and allocation, Tax, Resource and Reserve and other significant matters

- 2.6 The Committee will assist the Board in its consideration, approval and on-going oversight of matters pertaining to:
- (a) capital structure and funding;
 - (b) capital management planning and initiatives including capital allocation;
 - (c) where required, life of operation planning and cash flow prioritisation;
 - (d) where required, due diligence on acquisitions and divestments including proposals which may have a material impact on the Group's capital position;
 - (e) matters the Board may refer to the Committee in connection with the Group's capital position;
 - (f) tax affairs of the Group; and
 - (g) mineral resource and ore reserve estimates and market disclosures of the estimates.
- 2.7 The Committee will assist the Remuneration Committee and Board in its consideration and approval of matters pertaining to remuneration outcomes, including (where required) to:
- (a) recommend to the Remuneration Committee, at the beginning of each financial year, appropriate key performance indicators for the risk management component of the annual business scorecard for the CEO and the South32 Lead Team;
 - (b) determine and recommend to the Remuneration Committee, at the end of each financial year, the outcome of its evaluation of the risk management component of the annual business scorecard for the CEO and the South32 Lead Team; and
 - (c) recommend to the Remuneration Committee its assessment of any risk issues that may warrant adjustments to variable remuneration outcomes.
- 2.8 In accordance with the Group's Authorities Framework, the Committee will consider for approval:
- (a) the commencement or settlement of material litigation (including tax litigation) and the settlement of revenue authority audits or lodgement of tax litigation appeals;
 - (b) guarantees and indemnities in favour of third parties;
 - (c) global directors' and officers' insurance;

- (d) the use of derivatives, including uncleared swaps, for the purposes of hedging and the periodic review of the Group's policy in relation to hedging and other related policies;
- (e) *Tax Risk Management Policy* and the Tax Risk Tolerances and Approval Levels in the *Tax Standard* annually; and
- (f) any other matter delegated to the Committee from time to time.

3 Composition

3.1 The Committee will consist of:

- (a) only independent Non-executive Directors;
- (b) a minimum of three members; and
- (c) an independent director as Chair, who is not the Group Chair.

3.2 The Committee members must between them have appropriate financial and accounting expertise and a sufficient understanding of the industry in which the Company operates to be able to discharge the Committee's mandate effectively.

4 Procedures

4.1 The policies governing meeting procedures are set out in paragraph 3.19 of the Board Charter.

4.2 A standing invitation to attend meetings of the Committee will be issued to all Non-executive Directors in accordance with the *Board Charter* and to the:

- (a) CEO;
- (b) CFO;
- (c) Chief Sustainability Officer (**CSO**);
- (d) VP Group Assurance;
- (e) Group Manager Financial Reporting;
- (f) Group Manager Risk and Compliance; and
- (g) engagement partners of External Audit firms.

4.3 The Committee Chair will provide a brief oral report to the Board as to any material matters arising out of Committee meetings.

4.4 A copy of the minutes of the Committee will also be provided to all Directors.

4.5 The Committee will also consider if any material matters arising out of the Committee meeting should be advised to any other Committee and, if so, ensure that this occurs.

5 Resourcing

- 5.1 The Committee's work is supported by the CEO, CFO, CSO, VP Group Assurance, Group Manager Financial Reporting and the Group Manager Risk and Compliance.

6 Review of Terms of Reference

- 6.1 The Board will review the Terms of Reference of the Committee periodically and the Committee may make recommendations to the Board in relation to any changes to the Committee's responsibilities.

Adopted on 7 May 2015
Revised on 6 February 2020