

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 corporate reporting, risk management and assurance practices of the Group¹.
- 1.2 In discharging its responsibilities under these terms of reference, the Committee will have regard to:
- (a) the integrity of the Group's periodic corporate reports (including but not limited to, the annual directors' report, annual and half yearly financial statements, the annual tax transparency report and payment to governments report) 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.
- 1.3 The Committee is accountable to the Board for its performance. The Committee Chair (or their delegate) will report to the Board on the Committee's activities and will also consider if any material matters arising out of Committee meetings should be advised to any other committee and, if so, ensure that this occurs.

2 RESPONSIBILITIES

Corporate Reporting

- 2.1 The Committee will oversee the processes designed to safeguard the integrity of the Group's corporate reporting (within the Committee's area of responsibility) and facilitate independent verification. In particular, the Committee is responsible for:
- (a) reviewing corporate reporting and disclosure processes and making recommendations to the Board in relation to the adequacy of those processes (including the process to verify the integrity of any periodic corporate reporting that is not audited or reviewed by the external auditor);

¹ South32 Limited is the parent company of the South32 Group of companies. In this document, unless otherwise stated, references to South32 Group, Group and South32 refer to South32 Limited and its controlled entities and South32-operated joint arrangements, as a whole.

- (b) overseeing processes for compliance with laws, regulations and other requirements relating to the preparation of corporate reporting by the Group, including periodic reporting obligations under the applicable listing rules;
- (c) 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; and
- (d) assessing information from internal and external auditors which management identifies as significant for financial reports.

2.2 The Committee will oversee the preparation of the Group's annual report and financial statements and is responsible for recommending to the Board whether they should be approved based on the Committee's assessment of them. This assessment will include:

- (a) 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;
- (b) 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;
- (c) reviewing the results of external audits; and
- (d) reviewing declarations made by the Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**) to the Board with respect to the Group's financial statements under applicable laws and regulations.

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

2.4 The Committee is responsible for reviewing, and overseeing management's response to, complaints received by the Group regarding accounting or auditing matters.

External Audit

2.5 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 and the rotation of the audit partner;
- (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 any material changes to the Group's *Provision of Non-Audit Services Policy*;
- (f) where required, 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* and reporting 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 management;
- (j) reviewing and monitoring, at least annually, the effectiveness of the external auditor and assessing their performance;
- (k) reviewing with the external auditor, on a periodic basis, the scope and adequacy of the external audit, including identified risk areas and any additional procedures required;
- (l) reviewing representation letters signed by management and considering whether the information provided in the letter is complete and appropriate; and
- (m) monitoring management's response to the external auditor's findings and recommendations and the closure of matters raised.

Internal audit

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

- (a) approving the appointment, terms of engagement and removal of the head of the internal audit function;
- (b) reviewing the role, responsibilities and resources of the internal audit function;
- (c) meeting with the head (or manager) of the internal audit function:
 - (i) without management present at least once per year; and
 - (ii) as and when the Committee considers it necessary, or on request from the head (or manager) of the internal audit function, 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 annually the internal audit plan (and any changes thereto), including the health, safety, environment and community (**Sustainability**) component following endorsement by the Sustainability Committee;
- (f) considering the implications of, and evaluating management's responsiveness to, internal audit findings and recommendations;
- (g) overseeing, and advising the Board on, the plans, performance, leadership and objectivity of the internal audit function and the integrity of the internal audit process, for which purposes the Committee will have access to the internal audit function without management present; and
- (h) overseeing the co-ordination of, and the interaction between the internal audit function and the external auditor.

Risk management

2.7 The Committee will oversee management's implementation of the risk management framework having regard to:

- (a) the risk appetite developed by management and approved by the Board;
- (b) the fact that the Board may allocate responsibility for the oversight of certain risks to another Board committee. Where this occurs, the relevant Board committee(s) will inform the Committee on matters pertaining to the oversight of the risks for which they are responsible.

In particular, the Committee is responsible for:

- (a) reviewing (over the course of the year) the effectiveness of the Group's systems of internal control and risk management to gain assurance that they:
 - (i) identify and manage risks that are material to the achievement of the Group's corporate objectives, strategy and plans; and
 - (ii) are developed and reviewed with input from internal and external auditors and subject matter experts, considering relevant standards and industry guidance,
 and reporting, at least annually, the results of such reviews to the Board.
- (b) 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;
- (c) reviewing the effectiveness of systems and processes for detecting, reporting and responding to cybersecurity and information loss risks;
- (d) considering any report from the Sustainability Committee on material Sustainability risks;

- (e) making recommendations to the Board in relation to statements to be included in corporate reporting concerning internal controls and risk management, specifically (for inclusion in the annual report):
 - (i) material risks, including environmental and other suitability risks, that could affect the Group's financial prospects for future years and, where such a risk relates to factors within management's control, how these factors will be managed; and
 - (ii) whether the risk management framework has been reviewed and if appropriate, insights gained from the review and changes made as a result;
- (f) reviewing the effectiveness of the Group's policies, processes and reporting systems for detecting, reporting and preventing unethical, unlawful and dishonest conduct, fraud, breaches of anti-corruption laws, and whistle-blowing;
- (g) reviewing material breaches of the *Code of Business Conduct* and *Anti-Bribery and Corruption Policy* and reports of material concerns under the Company's *Speak Up Policy*;
- (h) reviewing any material incident involving fraud or a breakdown of risk controls and the "lessons learned";
- (i) receiving regular updates from management regarding any material litigation; and
- (j) overseeing the Group's insurance program (including global directors' and officers' insurance) having regard to the Group's business and the insurable risks associated with its business.

Other significant matters

- 2.8 The Committee will assist the Board in its consideration, approval and on-going oversight of matters pertaining to:
- (a) the capital structure and funding of the Group, capital management planning and initiatives (including capital allocation) and any other matter the Board may refer to the Committee in connection with the Group's capital position;
 - (b) where required, due diligence on acquisitions and divestments which may have a material impact on the Group's capital position;
 - (c) where required, life of operation planning and cash flow prioritisation;
 - (d) mineral resource and ore reserve estimates; and
 - (e) the tax affairs of the Group.
- 2.9 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 appropriate key performance indicators for any risk management component of the annual business scorecard for the CEO and the South32 Lead Team and any amendments thereto;
 - (b) determine and recommend to the Remuneration Committee 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) provide advice to the Remuneration Committee on material remuneration related risks identified through the system of risk management that may be relevant to the assessment of remuneration arrangements and outcomes, and the outcomes of the Committee's assessment of those risks.

2.10 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) parent-level guarantees and indemnities issued in favour of third parties;
- (c) 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;
- (d) the *Tax Risk Management Policy* and the Tax Risk Tolerances and Approval Levels in the *Tax Standard* annually; and
- (e) 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 Board Chair.

3.2 At least one Committee member must have appropriate financial and accounting expertise and the members of the Committee as a whole must have sufficient understanding of the industry in which the Group operates.

3.3 Provided there is no potential or actual conflict of interest, a standing invitation to attend meetings of the Committee will be issued to all Directors, the external audit engagement partner and to the:

- (a) CEO;
- (b) CFO;
- (c) VP Finance; and
- (d) the head of the internal audit function.

4 PROCEDURES

4.1 The processes and procedures that govern the operation of the Committee are set out in the document 'Board Committee Processes and Procedures'.

5 RESOURCING

5.1 The Committee's work is supported by the members of management set out in paragraph 3.3.

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