

RISK AND AUDIT COMMITTEE

TERMS OF REFERENCE

Revised on 30 April 2018

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 financial statements and corporate reporting by the Group of financial and non-financial information;
 - (b) making recommendations to the Board in relation to the adequacy of the Group's corporate reporting processes;
 - (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 CEO and 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 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 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 and incorporate the audit plan in the terms of engagement;
 - (c) approving the external auditor's fee (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;
 - (e) approving the Group's *Provision of Non-Audit Services Policy* and in accordance with that Policy, determining whether to approve the provision of non-audit services by the external auditor if required and report to the Board on any matters in respect of which it considers that action or improvement is needed;
 - (f) inviting the external auditor to attend Committee meetings to review the audit plan, discuss audit results and consider the implications of external audit findings;
 - (g) 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;
 - (h) raising with the external auditor any specific points of divergence with the Company's management;
 - (i) reviewing and monitoring, at least annually, the effectiveness of the external auditor and assessing their performance;
 - (j) 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;
 - (k) reviewing representation letters signed by management and considering whether the information provided in the letter is complete and appropriate;
 - (l) monitoring management's response to the external auditor's findings and recommendations; and
 - (m) 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 Risk and 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 Risk and Assurance:
 - (i) without management present at least once a year; and
 - (ii) as and when the Committee considers it necessary, or on request from the VP Risk and 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 Community (HSEC) component), which will be submitted annually to the Committee for approval; and
 - (ii) the HSEC 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 development and implementation of risk management systems in light of the risk appetite set by the Board and review risks the Company faces, action it should take, the effectiveness of the Company's risk management framework and disclosure of risks. In particular, the Committee is responsible for:
- (a) overseeing Management's design and implementation of an appropriate and effective risk management framework which:
 - (i) aims to identify, protect against, detect, respond to and recover from risks, and to review and improve the framework;
 - (ii) is developed and reviewed with input from internal and external auditors, compliance staff and other experts and consultants as relevant and in light of relevant standards and industry guidance;
 - (b) reviewing any significant changes to material risks identified by management and considering whether they remain within the risk appetite set by the Board with input from management, internal and external auditors, compliance staff and other experts and consultants as relevant and in light of relevant standards and industry guidance;
 - (c) making recommendations to the Board including in relation to:
 - (i) the main internal and external risk sources 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 economic, environmental and social sustainability risks and if so, how they intend to manage those risks);
 - (d) considering any report from the Sustainability Committee on material HSEC risks; and
 - (e) reviewing the effectiveness of the Group's 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 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) life of asset planning and cash flow prioritisation;
- (d) due diligence on acquisitions and divestments including proposals which may have a material impact on the Group's capital position; and
- (e) matters the Board may refer to the Committee in connection with the Group's capital position.

2.7 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) marketing strategy, controls and risk limits;
- (d) global directors' and officers' insurance;
- (e) 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; and
- (f) any other matter delegated to the Committee from time to time.

3 Composition

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.

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) VP Risk and Assurance;
 - (d) Group Manager Financial Reporting; and
 - (e) engagement partners of External Audit firms.

5 Resourcing

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