

## **ANGLO AMERICAN PLC AUDIT COMMITTEE TERMS OF REFERENCE**

### **1. Constitution**

A Committee of the Board known as the Audit Committee (the "Committee"), was established in terms of a resolution passed by the Board in 1999. The Board, having taken cognisance of subsequent international developments in corporate governance, has revised the terms of reference for the aforesaid Committee. The membership, responsibilities and authorities of the Committee are set out in these revised terms of reference, which may be amended by the Board from time to time.

### **2. Membership and Appointment**

- 1.0. The Committee shall consist of not less than three Directors appointed by the Board, on the recommendation of the Nomination Committee, all of whom shall be independent non-executive Directors and shall exclude the Chairman of the Board.
- 2.0. At least one member of the Committee shall have significant, recent and relevant financial experience and provision will be made for an induction programme and suitable training for all members of the Committee.
- 3.0. The Board, on the recommendation of the Nomination Committee, shall appoint a Chairman of the Committee from the members of the Committee. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 4.0. The Board shall have the power at any time to remove any members from the Committee and to fill any vacancies so created. The Board will, where possible, rotate the Chairmanship of the Committee and members of the Committee on a regular basis. Appointments to the Committee shall be for a period of up to three years extendable by no more than two additional three-year periods.
- 1.1. The current members are Mr D J Challen (Chairman), Dr C E Fay and Mr F T M Phaswana.
- 6.0. The Company Secretary or its nominee shall be the Secretary of the Committee.

### **3. Reporting and Accountability**

- 1.0. The Chairman of the Committee shall formally meet with the Board at least three times per annum to account to the Board for the Committee's work and make recommendations to the Board concerning the adoption of the annual and interim financial statements and any other matters arising from the responsibilities set out below.
- 2.0. The Chairman (or, in his absence, an alternative member) of the Committee shall attend the Annual General Meeting to answer questions concerning matters falling within the ambit of the Committee's responsibilities.
- 3.0. The Committee's roles and responsibilities and the actions taken by the Committee to discharge those responsibilities shall be disclosed in the annual report.

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#### **4. Remuneration**

- 1.0 Having regard to the functions performed by the members of the Committee in addition to their functions as Directors and in relation to the activities of the Remuneration Committee and pursuant to the specific power conferred upon the Board by the Articles of Association of the Company, members of the Committee shall be paid such special remuneration in respect of their appointment as shall be fixed by the Board.
- 2.0 The Chairman of the Committee shall, in addition to his remuneration as member, receive a further sum as determined by the Board.
- 3.0 Special remuneration payable under this head shall be in addition to the annual and attendance fees payable to Directors.
- 4.0 The remuneration payable under the terms hereof shall accrue from day to day and shall be paid as soon as convenient after the end of each calendar quarter. The above fees shall be subject to review by the Board from time to time.

#### **5. Authority of the Committee and Resources Available**

- 1.0 The Committee, in carrying out its tasks under these terms of reference:
- 2.0 is authorised to investigate any activity within its terms of reference;
- 3.0 may consult with and seek any information or services it requires from any employee and all employees shall be required to co-operate with any request made by the Committee in the course of its duties; and
- 4.0 may obtain, at the Company's expense, such outside legal or other independent professional advice both inside and outside of the Company considered necessary to perform its duties.

#### **6. Responsibilities**

- 6.1 The responsibilities of the Committee shall be:
  - 1.0.0 to provide the Finance Director, the external auditors and the head of the internal audit function access to the Chairman of the Committee or any other member of the Committee as is required in relation to any matter falling within the remit of the Committee;
  - 2.0.0 where there is unresolved disagreement between the Board and the Committee, to report such disagreement in the annual report;
  - 3.0.0 to ensure co-ordination of internal and external audit activities;
  - 4.0.0 to give due consideration to the requirements of the UK Listing Authority's Listing Rules;

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- 5.0.0 to oversee any investigation of activities, which are within its terms of reference and act as a court of last resort;
- 6.0.0 to consider other relevant matters referred to it by the Board;
- 7.0.0 to conduct an annual review of the Committee's work and these terms of reference and make recommendations to the Board to ensure that the Committee is operating at maximum effectiveness;

#### **Financial Statements**

- 8.0.0 to monitor the integrity of the annual and interim financial statements, the accompanying reports to shareholders, including the operating and financial review, and corporate governance statements relating to audit and risk management, the preliminary announcement of results and any other announcement regarding the Company's results or other financial information to be made public, before submission to the Board;
- 9.0.0 where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, to report its views to the Board;

#### **Risk Management and Internal Control**

- 10.0.0 to review and monitor the effectiveness and integrity of the Company's financial reporting and internal financial controls;
- 11.0.0 to review the effectiveness of the process for identifying, assessing and reporting all significant business risks and the management of those risks by the Company and make recommendations to the Board as appropriate;
- 12.0.0 to review the disclosure statement to shareholders on internal control and make recommendations to the Board as appropriate;

#### **External Audit**

- 13.0.0 to oversee the Company's relations with the external auditors;
- 14.0.0 to make recommendations to the Board on the appointment, retention and removal of the external auditors, and if the Board does not accept the recommendation, include in the directors' report a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position;
- 15.0.0 to oversee the process for selection, and where applicable, dismissal of the external auditors;
- 16.0.0 to review at least annually the risks, and where relevant, safeguards to the independence, effectiveness and objectivity of the external auditors including an assessment of the auditors' qualifications, expertise and resources taking into account relevant UK professional and regulatory requirements;
- 17.0.0 to ensure that key partners within the appointed audit firm are rotated from time to time;

#### **Revised Terms of Reference – Audit Committee**

- 18.0.0 at the start of each annual audit cycle, to ensure that appropriate plans are in place for the audit;
- 19.0.0 to oversee the nature and scope of the audit engagement and to approve the proposed audit fees and engagement letter;
- 20.0.0 to develop and implement the Company's formal policy on the engagement of the external auditors for the provision of non-audit services, details of which are to be provided in the annual report;

### **Internal Audit – Corporate**

- 21.0.0 to approve the terms of reference of the internal audit function having regard to the complementary roles of the internal and external audit functions;
- 22.0.0 to consider whether the mandate, organisation, resourcing and standing of the internal audit function are appropriate to enable the Committee to meet its objectives;
- 23.0.0 to review internal audit's conclusions with regard to risk management and internal control, financial reporting, corporate governance and significant investigations;
- 24.0.0 to review the adequacy of corrective action taken in response to significant internal audit findings;
- 25.0.0 to monitor and review the effectiveness of the Company's internal audit function;

### **Internal Audit – Group**

- 26.0.0 to oversee the effectiveness, including independence, of divisional internal audit functions;

### **Ethics**

- 27.0.0 to review any statements on ethical standards for the Company;
- 28.0.0 to review significant instances of behaviour which stand in conflict with the 'Good Citizenship - Business Principles'; and
- 29.0.0 to review the Company's arrangements and procedures by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure the arrangements and procedures allow for proportionate and independent investigation of such matters.

2.0 The Committee will not be responsible for:

- 1.0.0 supervising the performance of executives; or
- 2.0.0 becoming involved in day-to-day operations, management functions or decision-making.

## **7. Activities of the Committee**

### **Revised Terms of Reference – Audit Committee**

- 1.0 The Committee in carrying out its duties under these terms of reference will have due regard to the principles of governance and code of best practice of the Combined Code.
- 2.0 In discharging its responsibilities, the Committee will:

### **Financial Statements**

- 7.2.1 focus particularly on:
  - i. the quality of financial reporting and ensure that such reporting presents a balanced and understandable assessment of the position, performance and prospects of the Group
  - ii. critical accounting policies and practices, including the consistency of accounting policies both on a year to year basis and across the Group
  - iii. major financial reporting issues and judgmental areas
  - iv. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
  - v. the propriety of major adjustments processed at year-end
  - vi. significant adjustments resulting from the audit
  - vii. the going concern assumption
  - viii. capital adequacy
  - ix. compliance with accounting standards, local and international
  - x. compliance with Stock Exchange and legal requirements
  - xi. clarity and completeness of disclosures

### **Risk Management and Internal Control**

- 1.0.0 ensure that the external auditors report on internal control to the Directors;
- 2.0.0 review the six monthly risk reports as submitted to the Board;

### **External Audit**

- 3.0.0 consider whether the scope of the auditors' work is sufficient and the auditors are being fairly remunerated to ensure the provision of a quality service;
- 4.0.0 meet with the external auditors at least twice a year, once at the planning stage, where the scope of the audit will be considered, and once at the reporting stage;
- 5.0.0 discuss problems and reservations arising from the audit, and any matters the auditor may wish to discuss (where requested by the Committee, in the absence of executive Directors and any other person who is not a member of the Committee);
- 6.0.0 review the external auditors' proposed audit opinion;
- 7.0.0 review the external auditors' management letter and management's response;
- 8.0.0 facilitate the resolution of any difference between management and the auditor regarding financial reporting;

### **Revised Terms of Reference – Audit Committee**

- 9.0.0 where the external auditor also supplies non-audit services to the Company, keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- 10.0.0 review the disclosure details, for inclusion in the annual report, pertaining to the extent and nature of audit and non-audit services, auditor objectivity and how the auditor's objectivity is safeguarded;
- 11.0.0 at the end of the annual audit cycle, review the effectiveness of the audit process;
- 12.0.0 review the Company's Policy on Auditor Independence and consider the disclosure thereon for inclusion in the annual report;

### **Internal Audit**

- 13.0.0 consider significant difficulties encountered during the course of an audit, including restrictions on audit scope;
- 14.0.0 review reports produced by, and significant differences of opinion between management and the internal audit function;
- 15.0.0 consider the appointment, dismissal or re-assignment of the head of the internal audit function;
- 16.0.0 review co-ordination between the internal audit function and the external auditors; and

### **Ethics**

- 17.0.0 review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the Company.

## **8. Meetings - Frequency and Quorum**

- 1.0 Meetings of the Committee shall be held as frequently as the Committee, in consultation with the Company Secretary, considers appropriate but it shall normally meet not less than three times a year. Sufficient time should be allowed to enable the Committee to undertake as full a discussion as may be required and a sufficient interval should be allowed between Committee meetings and Board meetings to allow for the Committee to undertake such work as is necessary in preparation for each Board meeting. Further meetings may be called by the Board or any member thereof, including all members of the Committee, the external auditors, and the head of internal audit to keep in touch on a continuing basis with the key people involved in the Company's governance.
- 2.0 Meetings will be arranged to tie in with the publication of the Company's financial statements.
- 3.0 The Committee shall ensure that there are arrangements in place for the Committee to hold meetings where the external and internal auditors attend without management present to discuss matters within the remit of the audit committee and issues arising from the audit.

### **Revised Terms of Reference – Audit Committee**

- 4.0 The quorum for decisions of the Committee shall be any two members present throughout the meeting.
- 5.0 No invited attendee shall have a vote at the meetings of the Committee.

## **9. Meetings - Attendance**

- 1.0. The Committee:
  - 1.0.0 may, even though no one other than the Committee members is entitled to be present at a meeting of the Committee, invite other Board members and executives to attend and be heard at the meetings of the Committee;
  - 2.0.0 shall normally invite the Finance Director, managers responsible for finance, the head of internal audit and the external audit partners to attend meetings and to make proposals as necessary;
  - 3.0.0 may require other employees of the Company to attend meetings or parts of meetings; and
  - 4.0.0 may secure the attendance of external professional advisers at its meetings in order to perform its duties.

## **10. Proceedings**

- 1.0 Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the Company's Articles of Association regulating the meetings and proceedings of Directors.
- 2.0 Normally not less than 72 hours' notice of a meeting will be given of a meeting of the Committee to each member of the Committee, any other person required to attend and all other non-executive directors. Such notice will include the agenda and any supporting papers and be provided in a timely manner to enable full and proper consideration.
- 3.0 Minutes of meetings shall be taken by the Secretary of the Committee and shall be reviewed and approved by the members of the Committee.
- 4.0 The minutes of all meetings of the Committee, or summaries thereof, shall be circulated promptly to all members of the Committee and to the Chairman and all members of the Board and in any case, submitted to the Board as soon as possible. The agenda for each such Board Meeting shall provide an opportunity for the Chairman of the Committee to report on any matters of importance.
- 5.0 The Secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

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**Revised Terms of Reference – Audit Committee**

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### **Policy on External Auditor Independence - Taxation Services**

Following the request of the Audit Committee, the Policy on Auditor Independence – Taxation Services has been updated. The revision is presented overleaf. The change on page 17 is highlighted in red.

## **Policy on External Auditor Independence - Taxation Services**

### **1 Introduction**

The Group's policy on external auditor independence was approved by the AA plc audit committee and is effective from 1st January 2003. That policy sets out certain circumstances in which the auditor is prohibited from providing services including where:

- The auditor would be required to audit its' own work,
- The auditor act as a manager or employee of the Group,
- The auditor act as an advocate for the Group.

In much of the public debate about the role of auditors, and in particular on the services that an independent auditor can provide, taxation services have been specifically highlighted as an area where auditors may continue to provide services to their clients without jeopardising their independence.

The tax affairs of the Group are reviewed and subject to challenge by tax authorities. Therefore even where auditors have agreed the tax treatment of an issue the matter will be subject to further scrutiny by an independent body, and there remains the possibility of further review by the courts where agreement cannot be reached.

The following sets out the Group's specific policy concerning the provision of taxation services by external auditors. These policies should be read within the general framework of the Group's Policy on External Auditor Independence.

### **2 Taxation Services**

There is no intention to move towards appointing a single service provider to perform external taxation services for the Group. The Group's general policy in seeking external taxation services is that it should use the best service provider in each country for the specific piece of advice sought. However within the context of the Group's Policy on External Auditor Independence there are certain taxation services that the external auditor may not provide, and others where advance approval must be obtained from the Anglo American plc Audit Committee before those services are supplied by the auditor. These are set out in Appendix 1.

For guidance, Appendix 2 sets out areas where the external auditor may provide taxation services.

### **3 Rotation of Tax Partners**

There are currently no specific requirements or guidelines governing the rotation of key tax partners working for Group companies. It is however recommended that Group companies review this matter from time to time and where appropriate seek to rotate partners to prevent an over reliance on anyone individual.

### Prohibited Taxation Services

The external auditor is prohibited from:

1. Acting as an advocate for or representing the Group, or instructing any advocate appearing on behalf of the Group, in relation to any taxation matter before any court, tribunal or other adversarial proceeding involving litigation.
2. Providing any legal services in connection with taxation matters.
3. Acting as an expert witness on behalf of the Group before any court, tribunal or other adversarial proceeding involving litigation.
4. Seconding staff to the Group to act in a management or monitoring capacity in relation to taxation matters.
5. Tax planning services on a contingent fee basis.

Advance approval must be obtained from the Anglo American plc Audit Committee before the following services may be supplied by the external auditor.

6. Advice or assistance in the design or implementation of tax planning ideas or transactions whose sole business purpose may be to reduce or avoid tax.

## **Appendix 2**

### **Taxation Services that may be provided by the External Auditor**

The following is not an exhaustive list of services that may be provided by the auditor, but is meant to provide some guidance within the general framework of the Group's Policy on External Auditor Independence.

1. General tax planning, advice, and implementation services including mergers and acquisitions, subject to the restrictions in Appendix 1.
2. Tax appraisal and valuation services (including CGT base cost valuations, and transfer pricing reviews) to be used in support of the preparation of a tax return or in connection with any tax planning services being provided, except where the appraisals or valuations are to be used for financial reporting purposes.
3. Tax compliance services, including the preparation and submission of tax returns, amending tax returns, advice on tax payments, claims for refunds, correspondence and attendance at meetings with the tax authorities on matters arising from the submitted tax returns and assistance with and representation in connection with tax audits and administrative proceedings and appeals not involving litigation.
4. Requesting tax rulings or technical interpretations or advice from tax authorities.
5. Design, development and support services in connection with hardware and software systems used for the completion of a company's tax return, provided that such systems do not form part of the systems designed and used to generate information that forms part of the financial statements.