



**TERMS of REFERENCE of AUDIT COMMITTEE
XSTRATA plc ("the Company")**

The Terms of Reference of the Audit Committee ("the Committee") of the Company including all of its subsidiaries ("Group")

1. Aim and Role of the Committee

The principal aims of the Committee are to give the Board critical and independent advice on the Group's financial reporting and audit process and to keep under review the Group's compliance with the Turnbull Guidance with specific reference to internal controls and risk management systems.

2. Composition

- 2.1 The Committee shall be appointed by the Board and shall consist of at least three members. Appointments shall be for a period of up to three years extendable by no more than two additional three-year periods.
- 2.2 All members of the Committee shall be independent non-executive directors. The chairman of the Board shall not be a member of the Audit Committee.
- 2.3 A quorum shall be not less than two members of which one must be the chairman.
- 2.4 The Board shall satisfy itself that at least one member, or members of the Committee collectively, has/have sufficient recent and relevant financial experience.
- 2.5 The Chairman of the Committee shall be appointed by the Board.
- 2.6 The Secretary of the Committee shall be appointed by the Committee.

3. Meetings

- 3.1 The Committee shall meet not less than three times in each year and at such times as may be agreed by its members. Meetings shall be held in Switzerland. Any member of the Committee may at any time convene a meeting of the Committee. If they consider that one is necessary, the Group's external auditors, internal auditors, the Chief Executive or the Chief Financial Officer may at any time request the Chairman to convene a meeting of the Committee.
- 3.2 Meetings should coincide with the Group's financial reporting cycle and typically would be timed to take place:

- before the end of the financial year
 - before the issue of interim statements
 - after the year end, but before the annual accounts are finalized
- 3.3 Any directors of the Group, and senior management by invitation, may attend meetings and speak but not vote at any meeting of the Committee. The Chief Executive, Chief Financial Officer (or such other members of staff as are appropriate for the purpose), a representative of the Group's external auditors and the Head of Internal Audit will normally be invited to attend meetings of the Committee.
- 3.4 The Committee shall meet the Group's external auditors and head of internal audit at least once a year without any Executive Directors or other members of management present.

4. Authority

- 4.1 The Committee is authorized by the Board of Directors of the Group to investigate and undertake any activity within these Terms of Reference. It is authorized to seek any information it properly requires from any employee who is able to provide appropriate information regarding the financial affairs and corporate governance of the Group. All employees of the Group are directed to co-operate with any such request made by the Committee.
- 4.2 If the Committee considers it necessary so to do, it is authorized to obtain external legal or other independent professional advice to assist it in the performance of its duties and invite such persons to attend at meetings of the Committee.
- 4.3 The cost of obtaining relevant advice or services shall be borne by the Group.
- 4.4 The Committee shall review its performance annually and a report (written or oral) thereon shall be given to the Board by the Committee Chairman.

5. Responsibilities

Members of the Committee shall exercise their responsibilities in accordance with their duties under sections 171 to 177 of the Companies Act 2006.

The responsibilities of the Committee shall, inter alia, be to:

Financial Reporting

- 5.1 review the interim and annual report and accounts to shareholders and any other formal announcements relating to the Group's financial performance before submission to the Board, focusing particularly on:
- 5.1.1 compliance with relevant accounting practices and standards
 - 5.1.2 the consistency of the accounting policies and any changes made in those policies and practices which may affect the way the accounts are presented
 - 5.1.3 any decisions involving significant judgment, estimation or uncertainty

- 5.1.4 the extent to which the financial statements are affected by any unusual transactions and how they are disclosed
 - 5.1.5 the clarity of disclosures
 - 5.1.6 any other material matters such as contingent liabilities
 - 5.1.7 significant adjustments resulting from the audit
 - 5.1.8 the basis for adoption of the going concern assumption
 - 5.1.9 compliance with applicable stock exchange and legal requirements
 - 5.1.10 progress and results of the audit
 - 5.1.11 any action including possible areas of improvement required following the review of the above matters either on the Committee's own volition or by requests from the Board.
- 5.2 discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of the executive Directors and other management where necessary);
- 5.3 submit the documents referred to in paragraph 5.1 to the Board of Directors for its approval and to determine what information should be brought to the Board's attention in connection with that submission;

External Audit

- 5.4 oversee the process for selecting the external auditor and make appropriate recommendations through the Board, for consideration and approval of the shareholders at the AGM, in relation to the appointment, re-appointment and removal of the external auditor;
- 5.5 approve the remuneration and terms of engagement of the external auditor;
- 5.6 develop, implement and review policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; ensure strict application of Group policy, including appropriate pre-approval of fees in respect of non-audit services;
- 5.7 annually assess the external auditor's qualification, expertise and resources, effectiveness, independence and objectivity taking into consideration relevant UK professional and regulatory requirements and ensuring that key partners are rotated at appropriate intervals;
- 5.8 discuss with the external auditor the nature and scope of the external audit before the audit commences and review the auditor's quality control procedures and steps taken by the auditor to respond to changes to regulatory and other requirements;
- 5.9 review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external

auditors, if any errors remain unadjusted;

- 5.10 review the external auditor's management letter and management's response and inquire into reasons for any recommendations not acted upon;

Internal Audit

- 5.11 review the resources, authority and standing of the internal audit function;
- 5.12 approve the appointment or dismissal of the Head of Internal Audit;
- 5.13 review the internal audit plan and co-ordination between internal and external audit;
- 5.14 review the reports of the internal auditors dealing with the findings from their work, their assessment of the effectiveness of the risk and control environment, recommendations for strengthening internal controls and enhancement of economic and efficient use of resources, management comments and agreed implementation plans;
- 5.15 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 5.16 monitor and review the effectiveness of the Group's internal audit function;

Internal Control, Risk Management and Whistleblowing

- 5.17 review the effectiveness of the Group's internal financial and other controls, and risk management systems and its compliance with the Turnbull Guidance;
- 5.18 ensure that the statements to be made by the Board in the Annual Report on internal control, comply with the requirements of the Turnbull Guidance before submission to the Board for its approval;
- 5.19 review the Group's procedures for whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters and that there is proportionate and independent investigation of such matters and appropriate follow-up action;
- 5.20 keep under review the Group's ethical standards of business behaviour;
- 5.21 consider other topics, as requested by the Board or other relevant persons.

6. Reporting

- 6.1 The secretary of the Committee shall circulate the agenda before each meeting to the Committee Chairman, the Chief Financial Officer, the Head of Internal Audit and the Group's auditors. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. After the meeting, the minutes shall be sent to the Chairman of the Committee and

thereafter shall be circulated all members of the Committee for approval at the next meeting and shall be copied to the Board and to the Group's auditors (excluding the minutes relating to discussions held in the absence of the Group's auditors).

- 6.2 The Chairman of the Committee shall report its findings, with any recommendations, to the Board.
- 6.3 The Chairman of the Committee, or as a minimum, another member of the Committee, should attend the Board meeting at which the accounts are approved.
- 6.4 The Committee shall approve a report to shareholders on its activities to be included in the Group's Annual Report which shall include the role and responsibilities of the Committee and the actions taken by the Committee to discharge those responsibilities.
- 6.5 Where disagreements between the Audit Committee and the Board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on its activities in the Group's annual report.
- 6.6 The Committee Chairman shall attend the Group's Annual General Meeting and shall answer questions, through the chairman of the Board, on the Committee's activities and responsibilities.

7. Miscellaneous

- 7.1 The Committee shall conduct an annual review of their work and these terms of reference and make recommendations to the Board.
 - 7.2 The Group shall provide, as considered appropriate:
 - 7.2.1 an induction programme for all newly appointed members of the Committee and arrange for them to meet key members of the financial team, including members of the management below Board level, responsible for the financial control system and those responsible for internal audit.
 - 7.2.2 ongoing and timely training and information, inter alia in regard to financial reporting and regulatory developments, to assist members in maintaining their knowledge and skills.
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