



## **EVRAZ plc (the “Company”)**

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

Reference to the “Committee” shall mean the Audit Committee.

Reference to the “Board” shall mean the Board of Directors.

#### **1 Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Chairman of the Board and in consultation with the Nomination Committee.
- 1.2 The Committee shall comprise at least three members who shall be financially literate, non-executive directors, the majority of whom are independent. At least one member of the Committee will have recent and relevant financial experience and hold relevant formal qualifications. The Chairman of the Board shall not be a member of the Committee.
- 1.3 A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Committee for a period of one year commencing on the date of his ceasing: (i) to be a partner of the firm; or (ii) to have any financial interest in the firm, whichever is later.
- 1.4 The Committee Chairman shall be appointed on the recommendation of the Chairman of the Board following consultation with the Nomination Committee. The Chairman of the Committee must be an independent non-executive director. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee and remains independent, unless the Board otherwise determines and subject to the member’s retirement by rotation, in accordance with the Company’s Articles of Association and the provisions of the UK Corporate Governance Code.
- 1.6 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Company Secretary, head and members of the Internal Audit Department and members of the finance function and senior management may be invited to attend all or part of any meeting as and when appropriate.
- 1.7 The external auditor will be invited to attend meetings of the Committee on a regular basis.

1.8 The head of the Internal Audit Department shall act as Secretary of the Committee.

1.9 Initial members of the Committee shall be:

1.9.1 Terry Robinson (Committee Chairman);

1.9.2 Duncan Baxter;

1.9.3 Olga Pokrovskaya.

## **2 Quorum**

2.1 The quorum necessary for the transaction of business shall be two members.

2.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

2.3 Each member shall have one vote. The Committee Chairman shall not have a second or casting vote.

## **3 Frequency and Proceedings of Meetings**

3.1 The Committee shall meet at least four times a year at appropriate times as might be determined by the Company's reporting and audit calendar and otherwise as required.

3.2 Proceedings and meetings of the Committee will be governed by the provisions of the Articles for regulating meetings and proceedings of the Board, in so far as they are applicable and not inconsistent with these terms of reference.

## **4 Notice of Meetings**

4.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the Chief Financial Officer, internal or external auditors if they consider it necessary.

4.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend no later than five working days before the date of the meeting. Supporting papers should be sent to the Committee members and to the other attendees as appropriate, at the same time.

## **5 Minutes of Meetings**

5.1 The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

5.2 The Secretary of the Committee shall ascertain, at the beginning of the meeting, the existence of any conflict of interest and minute them accordingly. If any conflicts of interest exist with a particular member of the Committee on any particular issue then such member of the Committee shall not participate or vote on the issue that gave rise to such conflict of interest.

5.3 Draft minutes of the Committee meetings shall be circulated promptly to all members of the Committee, and, if requested by the Committee Chairman, to other attendees, and, once

agreed, to all members of the Board, unless it would be inappropriate to do so, for example, due to the existence of a conflict of interests.

## **6 Annual General Meeting**

- 6.1 The Chairman of the Committee shall attend the Annual General Meeting of the Company prepared to respond to any shareholder questions on the Committee's activities.

## **7 Duties**

- 7.1 The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### *7.2 Financial Reporting*

7.2.1 The Committee shall:

- (i) monitor the integrity of the financial statements of the Company/group, including its annual and interim reports, preliminary results' announcements, interim management statements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain; and
- (ii) monitor and review the group's financial and accounting policies and practices and the effectiveness of management processes and internal controls over financial reporting including the estimation and reporting of reserves and resources.

7.2.2 In particular, the Committee shall review and challenge where necessary:

- (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
- (ii) the methods used to account for significant or unusual transactions where different approaches are possible and how they are disclosed;
- (iii) whether the Company/group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (iv) significant adjustments resulting from the audit;
- (v) the reporting of related party transactions;
- (vi) the going concern assumptions and any qualifications;
- (vii) the clarity of disclosure in the Company's/group's financial reports and the context in which statements are made;
- (viii) compliance with applicable legal and regulatory requirements in relation to financial reporting; and
- (ix) all material information presented with the financial statements, such as the management discussion and financial review, and the corporate governance statement (insofar as it relates to the internal controls and the audit and risk management).

### *7.3 Internal Controls and Business Risk Management Systems*

7.3.1 The Committee shall:

- (i) review, and keep under review the effectiveness of, the Company's/group's internal financial, operational and compliance controls and business risk management systems;
- (ii) review and approve the statements to be included in the Annual Report concerning internal controls and business risk management;
- (iii) discuss with the Company's management to ensure that the Company has effective internal controls and risk management systems including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting and risk management function and their training programmes and budget;
- (iv) consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response to any such investigations or internal control matters;
- (v) advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments published by authoritative and regulatory sources that may be relevant for the Company's risk policies;
- (vi) oversee and advise the Board on the current risk exposures of the Company and future risk strategy;
- (vii) in relation to risk assessment;
  - (a) keep under review the Company's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - (b) review regularly and approve the parameters used in these measures and the methodology adopted; and
  - (c) set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- (viii) review the Company's capability to identify and manage new risk types; and
- (ix) review reports on any material breaches of risk limits and the adequacy of proposed actions.

7.4 *Whistleblowing*

7.4.1 The Committee shall keep under review to the extent necessary:

- (i) the adequacy and security of the group wide arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters. The Committee shall ensure that any such arrangements allow for proportionate and independent investigation of such matters and follow up action; and

- (ii) the Company's systems and controls for the prevention, detection, reporting and investigation and bribery and fraud..

## 7.5 *Internal Audit*

### 7.5.1 The Committee shall:

- (i) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall business risk management system;
- (ii) approve the appointment and removal of the head of internal audit function. The head of internal audit shall be accountable to the Committee;
- (iii) review and approve the compensation arrangements and budgets for the group wide internal audit function;
- (iv) consider and approve the Internal Audit Charter and remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall ensure the function has adequate standing and is free from management or other restrictions;
- (v) review and assess the annual and interim internal audit plans;
- (vi) review promptly all reports on the Company addressed to the Committee from the internal auditors;
- (vii) review and monitor managements responsiveness to the findings and recommendations of the internal auditor; and
- (viii) meet the head of internal audit at least on a quarterly basis, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board, and to the Committee.

## 7.6 *External Audit*

### 7.6.1 The Committee shall:

- (i) consider and make recommendations to the Board, to be put to the shareholders for approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (ii) oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (iii) oversee the relationship with the external auditor including (but not limited to):
  - (a) recommendations on auditor remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

- (b) approval of auditor terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit and to be responsible for any questions of resignation or dismissal of that auditor;
  - (c) assessing annually auditor independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
  - (e) agreeing with the Board a policy on employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (f) monitoring the auditor's compliance with the relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (g) assessing annually auditor qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures; and
  - (h) seeking to ensure co-ordination with the activities of the internal and external audit function;
- (iv) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
  - (v) review and approve the annual audit plan and interim results review plan and ensure that these plans are consistent with the scope of the audit engagement;
  - (vi) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - (a) a discussion of any major issues which arose during the audit
    - (b) any accounting and audit judgements, and
    - (c) level of errors identified during the audit.

7.6.2 The Committee shall also:

- (i) review the effectiveness of the audit;
- (ii) review any representation letter(s) requested by the external auditor before they are signed by management;

- (iii) review the management letter and management's response to the auditor's findings and recommendations and ensure that the Board provides a timely response to the issues raised in the management letter; and
- (iv) develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **8 Reporting Responsibilities**

- 8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall produce a report on its activities to be included in the Company's Annual Report.

## **9 Other Matters**

- 9.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required.
- 9.2 The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 9.3 The Committee shall give due consideration to laws and regulations, including the provisions of the UK Corporate Governance Code, the requirements of the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules (all of which are made by the Financial Services Authority under Part VI of the Financial Services and Markets Act 2000) and any other applicable rules, as appropriate.
- 9.4 The Committee shall be responsible for co-ordination of the internal and external auditors.
- 9.5 The Committee shall oversee any investigation of activities which are within its terms of reference.
- 9.6 The Committee shall at least [once] a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 9.7 The Committee shall once a year or as required review the Committee's Terms of Reference and making any appropriate modification recommendation to the board for approval and adoption

## **10 Authority**

- 10.1 The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and to call any employee to be questioned at a meeting of the Committee as and when required, and all employees are directed to co-operate with any such request made by the Committee.
- 10.2 The Committee is authorised to obtain, at the Company's expense, outside legal, accounting or other independent professional advice on any matter within its terms of

As adopted at the meeting of the Board of Directors of the Company on 14 October 2011

reference. Such advisers will be advisers solely to the Committee.

- 10.3 The Committee is authorised to have the right to publish in the Company's Annual Report details of any issues that cannot be resolved between the Committee and the Board.