

# HOCHSCHILD MINING plc (“the Company”)

## Audit Committee

### Terms of Reference:

Reference within these terms of reference to:

- “AGM” or “Annual General Meeting” shall mean any annual general meeting of the Company.
- “the Board” shall mean the board of directors of the Company.
- “the Committee” shall mean the Audit Committee.

### 1 Membership

- 1.1 The Committee shall be appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least 2 members, all of whom shall be independent non-executive directors, at least one of whom shall have recent and relevant experience working with financial and accounting matters.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.3 Where an internal audit function is discussed at a meeting, the head of internal audit should normally attend that meeting.
- 1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director remains independent, unless the Board otherwise determines and subject to the member’s retirement by rotation, in accordance with the terms of the Company’s Articles of Association and the provisions of the UK Corporate Governance Code (the “Code”).
- 1.6 The Board shall appoint the Committee Chairman who shall 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.

### 2 Secretary

- 2.1 The Company Secretary or his nominee shall act as the Secretary of the Committee.

### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be 2 members. 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.

### 4 Frequency of Meetings

- 4.1 The Committee shall meet not less than three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

4.2 The external auditors and/or the head of internal audit and/or officers responsible for risk assurance may request a meeting of the Committee if they consider that one is necessary.

4.3 At least once a year, without the presence of executive management and without the presence of internal auditors, the Committee shall meet with the external auditors.

## **5 Notice of Meetings**

5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external auditors if they consider it necessary.

5.2 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 and all other non-executive directors, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6 Minutes of Meetings**

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

6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

## **7 Annual General Meeting**

7.1 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's reports and activities.

## **8 Duties**

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

### **8.1 Financial Reporting**

8.1.1 The Committee shall:

- (i) monitor the integrity of the financial statements of the Company and the Group, including the annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain; and
- (ii) review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;

provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Listing Rules, Prospectus and Disclosure and Transparency Rules and any other applicable rules.

8.1.2 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;
- (iii) whether the Company 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 external audit;
- (v) the clarity and completeness of disclosures in the Company's financial reports and the context in which statements are made;
- (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company and the Group looking forward over an appropriate and justified period); and
- (vii) all material information presented with the financial statements, such as the strategic report and the corporate governance statements (insofar as it relates to the audit and risk management).

**8.1.3** The Committee shall monitor compliance with the rules of the London Stock Exchange, the Listing Rules and other legal and regulatory requirements.

**8.1.4** The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

**8.1.5** The Committee shall, where it is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the Board.

## **8.2 Narrative reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## **8.3 Internal Controls and Risk Management Systems**

**8.3.1** The Committee shall:

### **Risk management**

- (i) On behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's risk management system and carry out a review of its effectiveness and review and approve the statement to be included in the annual report concerning risk management.
- (ii) Where requested by the board, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks.

### **Internal controls**

- (iii) Review the Company's internal financial controls and internal control systems and carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control.

### **On-going viability**

- (iv) Where requested by the board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

### **Management and internal and external audit reports**

- (v) Review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively.
- (vi) Review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.

### **Disclosures**

- (vii) Consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- (viii) Consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

## **8.4 Compliance, Whistleblowing and Fraud**

The Committee shall

- 8.4.1** review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.4.2** review the Company's procedures for detecting fraud; and
- 8.4.3** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **8.5 Internal Audit**

The Committee shall:

- 8.5.1** monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.5.2** approve the appointment and removal of the head of the internal audit function;
- 8.5.3** consider and approve the remit of the internal audit function and ensure 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 also ensure the function has adequate standing and is free from management or other restrictions;
- 8.5.4** review and assess the annual internal audit plan;
- 8.5.5** review promptly all reports on the Company from the internal auditors;
- 8.5.6** review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 8.5.7** meet the head of internal audit at least once a year, 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.

## **8.6 External Audit**

The Committee shall:

- 8.6.1** consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor;
- 8.6.2** ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 8.6.3** if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4** oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of their 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;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
  - (iv) 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);

- (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- (vi) monitoring the auditor's compliance with 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; and
- (vii) assessing annually their 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;
- (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
- (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.

**8.6.5** 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;

**8.6.6** review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

**8.6.7** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- (i) a discussion of any major issues which arose during the audit;
- (ii) any accounting and audit judgments; and
- (iii) levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit;

**8.6.8** review any representation letter(s) requested by the external auditor before they are signed by management;

**8.6.9** review the management letter and management's response to the auditor's findings and recommendations; and

**8.6.10** develop, implement and maintain under review, a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## **9 Reporting Responsibilities**

**9.1** The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities.

This report shall include:

**9.1.1** the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;

- 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.7) and its recommendation on the appointment or reappointment of the external auditor; and
  - 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report. The report should include :
  - 9.3.1 an explanation of how the Committee has assessed the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor, including length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;
  - 9.3.2 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor;
  - 9.3.3 if so requested by the Board, confirmation that the Board has carried out a robust assessment of the principal risks faced by the Company, a description of those risks and an explanation as to how they are being managed and mitigated; and
  - 9.3.4 all other information requirements set out in the Code.
- 9.4 In the compiling of the reports referred to in 9.1 and 9.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the longer term viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10 Other**

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 10.2 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;
- 10.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules as appropriate;
- 10.4 be responsible for co-ordination of the internal and external auditors;
- 10.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

- 10.6** 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.

## **11 Authority**

The Committee is authorised:

- 11.1** to seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2** to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 11.3** to call any employee to be questioned at a meeting of the Committee as and when required;
- 11.4** 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.

***Approved by the Board on 1 December 2016***