

RHI MAGNESITA N.V.
(the “Company”)

Terms of Reference: Audit and Compliance Committee

as adopted by the Board of the Company on 12 October 2017

References to the “**Committee**” shall mean the Audit and Compliance Committee.

References to the “**Board**” shall mean the board of Directors of the Company.

References to the “**Group**” shall mean the Company together with its group companies.

References to the “**UK Code**” shall mean the UK Corporate Governance Code, as amended.

References to the “**Dutch Code**” shall mean the Dutch Corporate Governance Code, as amended.

References to the “**Ethical Standard**” shall mean the FRC Ethical Standard June 2016.

References to the “**CMA Order**” shall mean the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 published by the UK Competition & Markets Authority

1 Membership

- 1.1** The Committee shall comprise at least three members, all of whom shall be Non-Executive Directors who meet the independence requirements of the Dutch Code and the UK Code and at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chairman of the Company shall not be a member of the Committee.
- 1.2** Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee in consultation with the chairman of the Committee. The Committee shall include where possible one member of the remuneration committee.
- 1.3** Appointments to the Committee shall continue to have effect provided that the member continues to be an independent Non-Executive Director of the Company.
- 1.4** The Board shall appoint the Committee chairman. In the absence of the Committee chairman and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of their number to chair the meeting.
- 1.5** Only members of the Committee have the right to attend Committee meetings. However, the CFO, head of internal audit and external audit lead partner will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

2 Secretary

- 2.1** The company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner and of a quality to enable full and proper consideration to be given to issues.



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3 Quorum

- 3.1** The quorum necessary for the transaction of business shall be two members of the Committee.
- 3.2** A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise any or all of the authorities, powers and discretions vested in or exercisable by the Committee.

4 Frequency of meetings

- 4.1** The Committee shall meet at least three times a year and otherwise as required.
- 4.2** Outside of the formal meeting programme, the Committee chairman and, where appropriate, the other Committee members will maintain a dialogue with key individuals involved in the financial oversight of the Company including the CFO, the external audit lead partner and the head of internal audit.

5 Notice of meetings

- 5.1** Meetings of the committee shall be convened by the secretary of the Committee at the request of the Committee chairman or, exceptionally, the external audit lead partner.
- 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 (unless it would be inappropriate to do so), no later than five 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 decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2** Draft minutes of Committee meetings shall be circulated promptly to the chairman of the Committee and, where relevant, the chairman of the meeting. Once approved by them, minutes should be circulated promptly to all members of the Committee and to other members of the Board, unless it would be inappropriate to do so in the opinion of the Committee chairman.

7 Annual general meeting

The Committee chairman should attend the annual general meeting of the Company to answer any questions raised by the shareholders of the Company.

8 Duties

8.1 Financial reporting

- 8.1.1** The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance. In so doing, it shall review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to any matters communicated to it by the internal or external auditor.

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

- (i) the application of significant accounting policies and any changes to them;
- (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
- (iii) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements; and
- (iv) all material information presented with the financial statements, including the strategic report (including the statement of principal risks and uncertainties) and the narrative statements relating to the audit and to internal controls and risk management.

8.1.3 The Committee shall review any other statements requiring Board approval which contain financial information prior to consideration of those statements by the Board, where practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules.

8.1.4 Where the Committee is not satisfied with any aspect of the proposed accounting or financial reporting by the Company, it shall report its views to the Board.

8.2 Narrative reporting

Where requested by the Board, the Committee shall 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 and whether it informs the Board's statement(s) in the annual report on these matters required under the UK Code and Dutch Code.

8.3 Internal controls and risk management systems

The Committee shall:

- 8.3.1** keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and the Company's other internal control and risk management systems; and
- 8.3.2** review and approve the statements to be included in the annual report concerning internal control, risk management (including the statement of principal risks and uncertainties), the adoption of the going concern basis of accounting and the long-term viability statement.



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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's objective shall be to 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;
review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 8.4.3** review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

8.5 Internal audit

The Committee shall:

- 8.5.1** approve the appointment or termination of appointment of the head of internal audit;
- 8.5.2** review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- 8.5.3** review and approve the annual internal audit work plan (in context of a multi-year programme of work) to ensure it is aligned to the key risks of the business and integrated with the work of the external auditor, and receive regular reports on work carried out and any material findings;
- 8.5.4** ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, monitor whether there is open communication between different functions, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.5** ensure the internal auditor has direct access to the Committee chairman, providing independence from the executive and accountability to the Committee;
- 8.5.6** monitor (including undertaking a formal annual assessment) the effectiveness of the internal audit function; and as part of this assessment:
 - (i) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function and the level of co-operation received from functions within the Company;
 - (ii) review and assess the annual internal audit work plan;
 - (iii) determine whether it is satisfied that the quality, experience and expertise of the internal audit function is appropriate for the business or, where resources are obtained from an external third party, that these provide suitable expertise and represent value for money;



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- (iv) receive a report on the results of the internal auditor's work and any material findings; and
- (v) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;

8.5.7 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor; and

8.5.8 consider whether an independent, third party review of processes is appropriate.

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 annual general meeting in relation to the appointment, re-appointment and removal of the Company's external auditor and to seek authority from shareholders for the Board or Committee to approve the remuneration and terms of engagement of the external auditor;

8.6.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;

8.6.3 if an external 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. In this context, the Committee shall, on behalf of the Board:

- (i) approve their remuneration, including fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit (or, where appropriate, review) to be conducted;
- (ii) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit (or, where appropriate, review);

8.6.5 assess annually (i) the external auditor's independence and objectivity taking into account relevant Dutch law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services and (ii) the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements in the UK and other relevant jurisdictions;

8.6.6 satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;



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- 8.6.7** agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 8.6.8** monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 8.6.9** monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- 8.6.10** assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures and any materials published by the Financial Reporting Council or equivalent bodies in relation to audit quality;
- 8.6.11** seek to ensure co-ordination of the external audit with the activities of the internal audit function;
- 8.6.12** evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 8.6.13** develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation;
- 8.6.14** meet regularly with the external auditor (including once at the planning stage and once at the reporting stage in relation to each audit or review) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.6.15** discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope



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of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

- 8.6.16** review the findings of the audit or review 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 or review;
 - (ii) the auditor's explanation of how the risks to audit quality were addressed;
 - (iii) key accounting and audit judgements;
 - (iv) the auditor's view of their interactions with senior management; and
 - (v) levels of errors identified during the audit or review.
- 8.6.17** review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.18** review the management letter and management's response to the auditor's findings and recommendations; and
- 8.6.19** review the effectiveness of the audit process, including an assessment of the quality of the audit or review, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

9 Reporting responsibilities

- 9.1** The Committee chairman shall report formally to the Board on its proceedings after each meeting on all material matters considered by the Committee. 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 8.6.10), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; 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 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 addressed the effectiveness of the external audit process;
 - 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** all other information requirements set out in the UK Code and Dutch Code; and
 - 9.3.4** a statement of compliance with the provisions of the CMA Order.



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- 9.4** In compiling 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 inputs to the Board's 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 matters

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, including the general duties of directors set out in the Dutch Civil Code, the provisions of the UK Code and Dutch Code and the requirements of the FCA's Listing Rules, Disclosure Guidance and Transparency Rules, the CMA Order and any other applicable rules or guidelines published by institutional shareholders, their representative bodies or proxy advisory agencies, as appropriate;
- 10.4** be responsible for overseeing co-ordination of the internal and external auditors;
- 10.5** oversee any investigation of activities which are within its terms of reference;
- 10.6** work and liaise as necessary with all other Board committees, in particular where oversight of specific risk management and internal control activities has been delegated to other committees; and
- 10.7** arrange for periodic reviews of its own performance and effectiveness and, at least annually, review its constitution and terms of reference and recommend any changes it considers necessary to the Board.

11 Authority

The Committee is authorised to:

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