

## **STOBART GROUP LIMITED (the "Company")**

### **AUDIT COMMITTEE - TERMS OF REFERENCE**

#### **1 MEMBERSHIP**

- 1.1 The Members of the Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors. The Board must be satisfied that at least one member of the Audit Committee has recent and relevant financial experience.
- 1.2 The Audit Committee shall have at least three members. Each member shall be an Independent Non-Executive Director that is, independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. A duly convened meeting of the Audit 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 Audit Committee.
- 1.3 Appointments to the Audit Committee shall be made by the Board (on the recommendation of the Nomination Committee) in consultation with the Chairman of the Audit Committee. The Chairman of the Audit Committee shall be appointed by the Board (on the recommendation of the Nomination Committee). In the absence of the Chairman of the Audit Committee and/or the appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be a member of the Audit Committee.
- 1.4 If a member is unable to act for any reason, the Chairman of the Audit Committee may appoint another Non-Executive Director as an additional member provided always that the majority of members of the committee shall be independent as described in paragraph 1.2 above.
- 1.5 Appointments shall be made for a period of up to 3 years, which may be extendable by no more than two additional 3 year periods, so long as members continue to meet the criteria for membership of the Audit Committee, including the requirement to be Independent Non-Executive Directors.

#### **2 ATTENDANCE AT MEETINGS**

- 2.1 Only members of the Audit 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 and necessary.
- 2.2 The Chief Financial Officer and a representative of the External Auditors should normally be invited to attend meetings of the Audit Committee on a regular basis.
- 2.3 At least once a year the Audit Committee shall meet with the External Auditors without the Chief Financial Officer or any other Executive Director present.

#### **3 SECRETARY**

The Company Secretary or his or her nominee shall act as the Secretary of the Audit Committee.

#### **4 QUORUM**

The quorum necessary for the transaction of business shall be any two members of the Committee including a member with recent and relevant financial experience. A duly convened meeting of the Audit 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 Audit Committee.

#### **5 FREQUENCY OF MEETINGS**

- 5.1 The Committee shall meet at least three times per year at appropriate times in the reporting and audit cycle and at such other times as the Chairman of the Audit Committee shall require. The Company's Auditors may request a meeting if they consider it necessary. These meetings shall be convened by the Secretary of the Audit Committee at the request of its Chairman.
- 5.2 In addition, any of the Chairman of the Audit Committee, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the External Auditors may ask the Secretary of the Audit Committee to convene a meeting if he/she/they consider that such a meeting is necessary or appropriate. Further, the External Auditors and the Chief Financial Officer may have access to the Chairman or any other member of the Audit Committee as required in relation to any matter falling within the remit of the Audit Committee.

#### **6 NOTICE OF MEETINGS**

- 6.1 Meetings of the Audit Committee shall be called by the Secretary of the Audit Committee at the request of the Audit Committee Chairman.
- 6.2 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 Audit Committee, any other person required to attend and all other Non-Executive Directors, 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.

#### **7 MINUTES OF MEETINGS**

- 7.1 The Secretary of the Committee shall minute the proceedings and decisions of all meetings of the Audit Committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of Audit Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other Members of the Board unless in the opinion of the Committee Chairman it would be inappropriate to do so.

#### **8 AUTHORITY**

The Audit Committee is authorised by the Board to:

- 8.1 investigate any activity within its terms of reference;

- 8.2 seek any information it requires from any employee;
- 8.3 obtain outside legal or other independent professional advice at the Company's expense when the Audit Committee reasonably believes it is necessary to do so;
- 8.4 instruct external professional advisers to attend any meeting at the Company's expense if the Audit Committee considers this necessary or appropriate; and
- 8.5 have the right to publish in the Company's Annual Report details of any issues that cannot be resolved between the Audit Committee and the Board.

## **9 FUNCTION AND DUTIES**

- 9.1 Generally, the function of the Audit Committee is to establish formal and transparent arrangements for considering how to apply the financial reporting and internal control principles and to maintain an appropriate relationship with External Auditors.
- 9.2 The Audit Committee should carry out the duties below for the Company and major subsidiary undertakings of the Company (together the 'Group') as appropriate.
- 9.3 The responsibilities of the Audit Committee shall be to:
  - (a) Financial Reporting
    - (i) Monitor the integrity of the financial statements of the Company including its annual and half-yearly reports, interim management statements, its preliminary results' announcements and any other formal announcement relating to the Company's financial performance, reviewing significant financial reporting issues and judgments contained in them. The Audit Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcement of a price sensitive nature. This shall include:
      - (A) reviewing and challenging the consistency of, and any changes to, accounting policies both on a year by year basis and across the Company's Group;
      - (B) reviewing the methods used to account for significant or unusual transactions where different approaches are possible;
      - (C) considering whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the External Auditor;
      - (D) reviewing the clarity and completeness of disclosures in the Company's financial statements and considering whether the disclosures made are set properly in context;

- (E) where the Audit Committee is not satisfied with any aspect of the proposed financial reporting of the Company, reporting its view to the Board;
- (F) reviewing related information presented with the financial statements and corporate governance statements relating to the audit and to risk management; and
- (G) where Board approval is required for other statements containing financial information (for example, summary financial information or releases of price sensitive information) whenever practicable the Audit Committee should review such statements first.

(b) Internal Controls and Risk Management Systems

- (i) review the Company's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent directors, or by the Board itself, to review the Company's internal control and risk management systems. This shall include:
  - (A) reviewing the Company's systems established to identify, assess, manage and monitor financial risks;
  - (B) receiving reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by internal and External Auditors;
  - (C) reviewing the effectiveness of the Company's internal controls and risk management systems; and
  - (D) except where dealt with by the Board or risk management committee, reviewing and approving the statements included in the annual report in relation to internal control and the management of risk.

(c) Internal Audit

- (i) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system and, where there is no internal audit function, consider annually whether there is a need for an internal audit function and make a recommendation to the Board. This shall include:
  - (A) reviewing and assessing the annual internal audit plan;
  - (B) reviewing promptly all reports on the Company from the internal auditors;
  - (C) reviewing and monitoring management's responsiveness to the findings and recommendations of the internal auditor;

- (D) considering whether there are any trends or current factors relevant to the Company's activities, markets or other aspects of its external environment, that have increased, or are expected to increase, the risks faced by the Company;
- (E) considering any adverse internal trends evident from the monitoring of internal control systems or an increased incidence of unexpected occurrences;
- (F) in the absence of an internal audit function, assessing whether other internal monitoring processes provide sufficient and objective assurance;
- (G) approving the appointment or termination of appointment of the head of internal audit and continually reviewing the work 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;
- (H) ensuring the function has adequate standing and is free from management and other restrictions; and
- (I) meeting 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 Audit Committee.

(d) External Audit

- (i) make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the Company's External Auditor and to approve the remuneration and the terms of engagement of the External Auditor.

This shall include:

- (A) overseeing the selection process for new auditors and if an auditor resigns the Audit Committee shall investigate the issues leading to this and decide whether any action is required;
- (B) annually assessing the qualification, expertise and resources, and independence of the External Auditors and the effectiveness of the audit process which shall include a report from the External Auditor on their own internal quality procedures;
- (C) reviewing and agreeing the engagement letter at the start of each audit, ensuring that it has been updated to reflect

changes in circumstances which have arisen in the previous year;

- (D) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
  - (E) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and the Company (other than in the ordinary course of business);
  - (F) agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy;
  - (G) 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;
  - (H) discussing and agreeing the scope with the External Auditor and arranging for additional work to be undertaken as necessary;
  - (I) satisfying itself that the level of fee payable is appropriate and that an effective audit can be conducted for such a fee; and
  - (J) seeking to ensure co-ordination with the activities of the internal audit function;
- (ii) review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. This shall include considering all relationships between the Company and the audit firm (including the provision of non-audit services) and whether such relationships impair the External Auditor's judgment or independence;
  - (iii) develop and implement a 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 any action or improvement is needed and making any recommendations as to the steps to be taken. This shall include setting and applying a formal policy specifying the types of non-audit work which the External Auditors will not be permitted to carry out for the Company and those which are permitted subject to the prior consent of the Audit Committee;
  - (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;

- (v) review the findings of the audit with the External Auditor including but not limited to the following:
  - (A) any major issues which arose during the audit;
  - (B) any accounting and audit judgments;
  - (C) levels of errors identified during the audit; and
  - (D) the effectiveness of the audit;
  - (E) reviewing any representation letter(s) requested by the External Auditor before they are signed by the Board or management; and
  - (F) reviewing the management letter and management's response to the auditor's findings and recommendations.
  
- (e) Compliance Whistleblowing and fraud
  - (i) The Audit Committee shall:
    - (A) 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 follow proportionate and independent investigation of such matters for detecting fraud;
    - (B) review the Company's procedures for detecting fraud;
    - (C) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
    - (D) review the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

## **10 REPORTING**

- 10.1 The Chairman of the Audit Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and shall compile a report on its activities to be included in the Company's annual report.
  
- 10.2 The Audit Committee should report annually on the Board's behalf to the Company's shareholders. Its report should accompany the directors' report in the Company's annual report and accounts and should include such information as is required to comply with the UK Corporate Governance Code or, where the Audit Committee has determined that there are good reasons for not so complying, an explanation of those reasons. Notwithstanding the above, the Audit Committee's annual report should include:

- (a) a summary of the role of the Audit Committee;
- (b) the names and qualifications of all members of the Audit Committee during the relevant period;
- (c) the number of Audit Committee meetings;
- (d) a report on the way the Audit Committee has discharged its responsibilities; and
- (e) an explanation for any non-audit work carried out by the external audit firm as referred to in paragraph 9.3(d)(iii) above.

10.3 The Chairman of the Audit Committee should attend the Company's Annual General Meeting for the purpose of handling any questions or enquiries at the meeting about the latest audit and any other matters pertaining to the work of the Audit Committee.

## **11 OTHER MATTERS**

The Audit Committee shall:

- 11.1 be provided with appropriate and timely training, both in the form of an induction programme for new members of the Committee and on an ongoing basis for all members of the Committee;
- 11.2 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules and the UK Listing Authority's Listing, Prospectus, Disclosure and Transparency Rules as appropriate;
- 11.3 at least once a year, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- 11.4 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 11.5 be responsible for co-ordination of the internal and External Auditors; and
- 11.6 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort.