

Dated 12 October 2017

TERMS OF REFERENCE – AUDIT AND RISK
COMMITTEE

Stobart Group Limited
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Registered in Guernsey
Registered number 39117

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Stobart Group Limited

TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE

1 CONSTITUTION

- 1.1 The audit and risk committee (**Committee**) was constituted as a committee of the board of directors (board) of **Stobart Group Limited** (the **Company**) in accordance with the articles of association of the Company.
- 1.2 The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference.
- 1.3 The Committee may sub-delegate any or all of its powers and authority as it thinks fit to one or more of its members or the company secretary, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

2 ROLE

The role of the Committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1 the integrity of the financial information provided to shareholders;
- 2.2 the Company's system of internal controls and risk management;
- 2.3 the internal and external audit process and auditors; and
- 2.4 the processes for compliance with laws, regulations and ethical codes of practice.

3 DUTIES AND TERMS OF REFERENCE

The Committee shall carry out the following duties for the Company and its subsidiaries (**Group**) as appropriate:

3.1 Financial reporting

The Committee shall:

- 3.1.1 monitor and discuss with management the integrity of the financial statements of the Company and the Group, including:
 - 3.1.1.1 the annual and half-yearly reports;
 - 3.1.1.2 preliminary results announcements; and

- 3.1.1.3 any other formal announcement relating to its financial performance.
- 3.1.2 review and report to the board significant financial reporting issues and judgements which the financial statements, interim reports, preliminary announcements and related formal statements contain having regard to matters communicated to it by the external auditor;
- 3.1.3 review and challenge where necessary:
 - 3.1.3.1 the consistency, quality and appropriateness of the accounting policies, including any changes to accounting policies both on a year on year basis and across the Company and the Group;
 - 3.1.3.2 whether the Company has made appropriate estimates and judgements, taking into account the external auditor's views;
 - 3.1.3.3 the consistency of the quality of earnings published ensuring there is appropriate disclosure and that movements in underlying earnings are properly understood
 - 3.1.3.4 the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Company and the external auditor;
 - 3.1.3.5 the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;
 - 3.1.3.6 significant adjustments resulting from the external audit; and
 - 3.1.3.7 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);

- 3.1.4 monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements;
- 3.1.5 review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- 3.1.6 review the disclosures in the annual report concerning the Group's pension funds if not reviewed by the board as a whole; and
- 3.1.7 where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the board.

3.2 **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.

3.3 **Risk management systems and internal controls**

The Committee shall:

3.3.1 **Risk management**

- 3.3.1.1 On behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's risk management system and, at least annually, carry out a review of its effectiveness, and review and approve the statement to be included in the annual report concerning risk management.
- 3.3.1.2 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 seek assurance that the management and mitigation of those risks is effective and appropriate
- 3.3.1.3 Oversee and advise the board on the Company's and the Group's current risk exposure and future risk strategy and

annually consider how the remuneration of executives shapes their view of risk.

3.3.2 **Internal controls**

Review the Company's internal financial controls and internal control systems and, at least annually, carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control.

3.3.3 **On-going viability**

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.

3.3.4 **Management and internal and external audit reports**

3.3.4.1 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.

3.3.4.2 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.

3.3.5 **Disclosures**

3.3.5.1 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.

3.3.5.2 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.

3.4 **Internal audit**

The Committee shall:

- 3.4.1 approve the appointment and removal of the head of the internal audit function;
- 3.4.2 review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring that it is appropriate for the Company's current needs;
- 3.4.3 review and approve the annual internal audit plan to ensure it is aligned to business's key risks and receive regular reports on work carried out;
- 3.4.4 ensure that the internal audit function has appropriate scope, necessary resources and access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions;
- 3.4.5 ensure the internal audit function has direct access to the board/ Committee chairmen and is accountable to the Committee;
- 3.4.6 review and assess the annual internal audit plan and be advised of the reasons for any change or delay in the plan and optimise co-ordination between the internal and external auditors;
- 3.4.7 determine whether it is satisfied that the quality, experience and expertise of internal audit are appropriate for the business;
- 3.4.8 review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of the internal audit function;
- 3.4.9 monitor and review the role and effectiveness of the Company's internal audit function in the context of the Company's overall risk

management system and the work of compliance, finance and the external auditor, ensuring that the internal audit plan is aligned to the business's key risks;

- 3.4.10 ensure that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- 3.4.11 ensure that the Committee meets with the head of internal audit to discuss effectiveness of the internal audit function, without management present, at least once per year; and
- 3.4.12 consider whether an independent, third party review of internal audit effectiveness and processes is required.

3.5 **External audit**

The Committee shall, taking into account any applicable law and legislation:

3.5.1 **Appointment, reappointment and resignation**

- 3.5.1.1 Consider and make recommendations to the board, to be put to shareholders for approval at the Company's AGM, on the appointment, reappointment or removal of the Company's external auditors.
- 3.5.1.2 Ensure that at least once every 10 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 tendering process.
- 3.5.1.3 If any auditor resigns, investigate the issues leading to this and decide whether any action is required.
- 3.5.1.4 Evaluate 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 the auditor from the market in that evaluation.

3.5.2 Terms of engagement

Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the executive directors, agree their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken.

3.5.3 Independence and expertise

3.5.3.1 Review and assess on an annual basis:

- (a) the external auditor's independence and objectivity taking into account the relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and/or
- (b) the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.

3.5.3.2 Seek reassurance from the external auditor and their staff that they have no relationships with the Company which could adversely affect the auditor's independence and objectivity and, at least annually, seek information from the external audit firm about policies and processes for maintaining independence and monitoring compliance.

3.5.4 Non-audit services

3.5.4.1 Agree a policy for the provision of non-audit services and review at least annually.

3.5.4.2 Ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process.

3.5.5 Audit cycle

- 3.5.5.1 Review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 3.5.5.2 Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without the executive directors or management being present, to review the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, key accounting and audit judgements and levels of errors identified during the audit.
- 3.5.5.3 Consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor.
- 3.5.5.4 Review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate.
- 3.5.5.5 Review, prior to its consideration by the board, the external auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations.
- 3.5.5.6 At the end of the audit cycle, assess the effectiveness of the audit process including:
 - (a) reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed;
 - (b) understanding reasons for changes to the audit plan;

- (c) considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;
- (d) obtaining feedback from key people on the conduct of the audit; and
- (e) reviewing and monitoring the content of the external auditor's management letter and reporting to the board on the effectiveness of the audit process.

3.5.6 **Other matters**

- 3.5.6.1 Encourage co-ordination between the activities of the external auditor and the internal audit function.
- 3.5.6.2 Agree with the board the Company's policy on employment of former employees of the Company's external auditor and monitor the implementation of this policy.
- 3.5.6.3 Monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of the audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements.

3.6 **Whistleblowing**

The Committee shall 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.

3.7 **Fraud**

The Committee shall annually review the Company's procedures for detecting fraud.

3.8 **Compliance**

The Committee shall:

- 3.8.1 review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery and receive reports on non-compliance;
- 3.8.2 review regular reports from the money laundering reporting officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- 3.8.3 keep under review the adequacy and effectiveness of the Company's compliance function.

4 **MEMBERSHIP**

- 4.1 The Committee shall comprise a chairman and a minimum of two members and the Committee as a whole shall have competence relevant to the section in which the Company operates. Each Committee member shall be an independent non-executive director as determined by the board (in accordance with the principles of the UK Corporate Governance Code), at least one of whom shall have recent and relevant experience working with financial and accounting matters, ideally with a professional qualification from one of the professional accountancy bodies and experience of preparing financial statements under IFRS. If any member of the Committee is deemed not to be independent, then the board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.
- 4.2 The board shall appoint members of the Committee, on the recommendation of the Nomination Committee, in consultation with the Committee chairman. It is recognised that the number of members may fall below two for temporary periods due to departures pending new appointments.
- 4.3 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 4.4 The board shall appoint the chairman of the Committee from among the independent non-executive directors and shall determine the period for which the chairman of the Committee will hold office. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present at a meeting shall elect one of their number present to chair the meeting.
- 4.5 The Committee chairman shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.

- 4.6 The company secretary shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

5 ATTENDANCE AT MEETINGS

- 5.1 The Committee shall meet at least three times a year at appropriate times in the Company's financial reporting and audit cycle.
- 5.2 Outside of the formal meeting programme, the Committee chairman shall maintain a dialogue with key individuals involved in the Company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit.
- 5.3 Only Committee members have the right to attend and vote at Committee meetings. However, the external auditor, finance director and head of internal audit (if applicable) shall be invited to attend and address meetings of the Committee at least once a year and other non-members may be invited to attend all or part of any meetings as and when appropriate and necessary and with the Committee chairman's agreement. The Committee chairman shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings.
- 5.4 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.5 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

6 NOTICE OF MEETINGS

- 6.1 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 finance director, external audit lead partner or head of internal audit.
- 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 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, but Committee papers may be forwarded at shorter notice with the approval of the Committee chairman.

7 QUORUM

- 7.1 The quorum necessary for the transaction of business at a Committee meeting shall be two members (including, whenever possible, at least one member with recent and relevant financial experience) present in person or by audio or video conference. If there is difficulty in achieving a quorum, independent non-executive directors, who are not members of the Committee, may be co-opted as members for individual meetings.
- 7.2 A duly convened Committee meeting 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.

8 VOTING ARRANGEMENTS

- 8.1 Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 8.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 8.3 Except where he has a personal interest, the Committee chairman shall have a casting vote.
- 8.4 The Committee chairman may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

9 MINUTES OF MEETINGS

- 9.1 The company secretary (or his or her nominee) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 9.2 Draft minutes of Committee meetings shall be circulated promptly to all Committee members. Once approved, minutes shall be circulated to all other board members unless in the opinion of the Committee chairman it would be inappropriate to do so.
- 9.3 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

10 ANNUAL GENERAL MEETING

If requested by the chairman of the Board, the Chairman of the committee, or other members shall attend the annual general meeting and the Committee chairman (or other appropriate member) shall be available to respond to any shareholder questions on the Committee's activities.

11 REPORTING RESPONSIBILITIES

The Committee shall:

- 11.1 report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the board papers for a subsequent board meeting;
- 11.2 prepare a formal report to shareholders on its activities to be included in the Company's annual report, which shall include:
 - 11.2.1 details of the membership of the Committee, number of meetings held and attendance over the course of the year;
 - 11.2.2 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 external auditor;
 - 11.2.3 confirmation that the board has carried out a robust assessment of the principal risks facing the Company, a description of those risks and an explanation as to how they are being managed and mitigated;
 - 11.2.4 an explanation of its assessment of the effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company and the Group, auditor objectivity and independence is safeguarded) 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;
 - 11.2.5 an explanation of how the Committee has addressed the effectiveness of the internal audit process;
 - 11.2.6 all other information requirements set out in the UK Corporate Governance Code; and

- 11.2.7 any other issues on which the board has requested the Committee's opinion;
- 11.3 in compiling the above report, exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but 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;
- 11.4 make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed;
- 11.5 where disagreements between the Committee and the board cannot be resolved, report the issue to the shareholders as part of the report on the Committee's activities in the annual report;
- 11.6 if the board does not accept the Committee's recommendation regarding the appointment, re-appointment and removal of the external auditors, include a statement explaining its recommendation and reasons why the board has taken a different stance in the annual report; and
- 11.7 make available to shareholders these terms of reference by placing them on the Company's website.

12 **GENERAL MATTERS**

The Committee shall:

- 12.1 consider other duties determined by the board from time to time;
- 12.2 have access to sufficient resources in order to carry out its duties, including access to the company secretary as required;
- 12.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members. Any individual training to be discussed and agreed with the company secretary;
- 12.4 give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules as appropriate; work and liaise as necessary with all other board committees; and

- 12.5 arrange for annual reviews of its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

13 AUTHORITY

The board authorises the Committee to:

- 13.1 carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on any matter within its terms of reference as it considers necessary;
- 13.2 seek any information it requires from any employee of the Company or any of the Company's subsidiaries to performs its duties;
- 13.3 secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense;
- 13.4 call any employee to be questioned at a Committee meeting as and when required and all employees are directed to co-operate with any request made by the Committee;
- 13.5 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;
- 13.6 commission, at the Company's expense, any reports or surveys which it deems necessary to help it fulfil its obligations; and
- 13.7 collectively and individually have direct access to the group finance director, the head of internal audit (if applicable) and the Company's external auditors.

Adopted at the Audit Committee meeting of the Company on 12 October 2017.