

FDM GROUP (HOLDINGS) PLC - AUDIT COMMITTEE

Terms of reference

**(Adopted by the board on 16 June 2014
Amended on 26 July 2016)**

1. The Audit Committee

The Audit Committee:

- (a) is a sub-committee of the board and shall make recommendations to the board which retains the right of final decision;
- (b) is made up of non-executive directors;
- (c) has the primary responsibility of reviewing the financial statements and the accounting principles and practice underlying them, liaising with the external auditors and reviewing the effectiveness of internal controls; and
- (d) will meet at least twice a year and in any event sufficiently frequently and for long enough to perform its duties effectively.

2. Main role and responsibilities

The main role and responsibilities of the Audit Committee are to:

- (a) provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the UK Corporate Governance code, and to maintain an appropriate relationship with the Company's auditors, as required by section C.3 of the UK Corporate Governance Code;
- (b) monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgments contained in them;
- (c) 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, the company's internal control and risk management systems;
- (d) review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- (e) monitor and review the effectiveness of the company's internal controls;
- (f) 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 external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (g) 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;
- (h) develop and implement 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

- (i) report to the board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

3. Membership

- 3.1 There should be a minimum of three members.
- 3.2 The members of the Audit Committee shall be appointed by the board, on the recommendation of the nomination committee and in consultation with the chairman of the Audit Committee.
- 3.3 Membership should be confined to independent non-executive directors at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accounting bodies. Any member who is determined by the board no longer to be independent shall cease to be a member of the Audit Committee.
- 3.4 Appointments to the Audit Committee shall be for a period of up to three years, extendable by no more than two additional three year periods.
- 3.5 Proper minutes shall be kept of its proceedings which shall be circulated to all directors of the company, and, if the Audit Committee so chooses, to the company's external auditor.

4. Meetings

- 4.1 Audit Committee meetings shall be held not less than twice a year, to discuss general audit matters, the interim and full year report and statements and otherwise as required, having regard to the Company's financial reporting and audit cycle, and at such other items as the chairman of the Audit Committee shall think fit. The external auditor may request a meeting if it considers that one is necessary.
- 4.2 The external auditor, the Chief Executive Officer and the Chief Financial Officer / financial controller of the company should be invited to attend meetings of the Audit Committee on a regular basis without being members and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary.
- 4.3 The quorum necessary for the transaction of business shall be three members, at least one of whom has recent and relevant financial experience.
- 4.4 Meetings of the Audit Committee will be arranged to tie in with the publication of the company's financial statements. Meetings should be held at least five working days prior to any board meeting at which accounts or financial statements are to be approved, unless all the members of the Audit Committee agree otherwise.
- 4.5 Unless otherwise agreed by all members of the Audit Committee, notice of meetings, confirming the venue, time and date together with an agenda and all relevant papers,

should normally be circulated to each member of the Audit Committee, to any other person required to attend, and to all other non-executive directors, at least five working days prior to the date of the meeting.

5. Chairman

The board, on the recommendation of the nomination committee, shall elect one of the members of the Audit Committee (but not the company Chairman) to act as Chairman of the Audit Committee who shall be an independent director and he will be responsible for:

- (a) preparing the agenda;
- (b) the timely distribution of the agenda and any supporting papers;
- (c) reporting to the board on issues and decisions made; and
- (d) answering questions about the Audit Committee's work at the AGM.

In the absence of the chairman of the Audit Committee, the members present shall select one of their number to chair the meeting (other than the Chairman of the Company, if he is a member of the Audit Committee).

6. Authorisation

- 6.1 The Audit Committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee in order to perform its duties and all employees will be directed by the board to co-operate with any request made by the Audit Committee.
- 6.2 The Audit Committee is authorised by the board to obtain, at the company's expense, outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. This authority is subject only to the requirement that independent advice is sought at a reasonable cost commensurate with the matter under review.

7. Duties

The duties of the Audit Committee shall be as follows.

7.1 *External reporting*

- (a) Review and monitor the integrity of the financial statements before submission to the board, reviewing and reporting to the board on significant financial reporting issues and judgments which they contain having regard to the matters communicated to it by the auditor, and focusing particularly on:
 - (i) the consistency of, and any change in, accounting policies and practices 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) any major judgmental areas;

- (iv) any significant adjustments resulting from the audit;
 - (v) the going concern assumption;
 - (vi) compliance with accounting standards, taking into account the views of the external auditor;
 - (vii) compliance with applicable regulatory and legal requirements
 - (viii) the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
 - (ix) compliance with best practice in the area of corporate governance.
- (b) Review the annual report and interim financial results in their entirety.
 - (c) Review the summary financial reports.
 - (d) Review circulars issued in respect of takeovers, defences against takeovers and other major non-routine transactions.

7.2 *External auditor*

- (a) Consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment and re-appointment of the external auditor and any questions of resignation or dismissal.
- (b) Oversee the relationship with the external auditor including, but not limited to, assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the overall relationship with the auditor, including the provision of any non-audit services.
- (c) Review the proposed audit fee and keep under review the scope and results of the audit and its cost effectiveness.
- (d) Prior to the audit commencing, discuss the nature, scope and timing with the external auditor and ensure co-ordination where more than one audit firm is involved.
- (e) Discuss any problems and reservations arising with the interim and final accounts audits and any matters the external auditor may wish to raise.
- (f) Discuss the meaning and significance of audited figures and any notes thereto.
- (g) Review the external auditors' evaluation of the company's internal controls, the management letter and the management's response.
- (h) Review any factors that might impair, or be perceived to impair, the external auditor's independence and objectivity. Where the external auditor also supplies a substantial volume of non-audit services to the company, keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- (i) 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 management being present, to discuss the external auditor's remit and any issues arising from the audit and the effectiveness of the audit process.

- (j) Arbitrate in any disputes between the external auditor and management.
- (k) Consider periodically an assessment by the external auditor of the quality of accounting and finance personnel in the group.

7.3 *Internal Control Systems*

Note: As at the date of these Terms of Reference, the Company does not have a formal internal audit function. The Committee considers that the level of complexity of the Company and its business model is such that a formal internal audit function is not required. However, the Committee shall keep the situation under review. The Company has appointed Grant Thornton to carry out a number of internal audit projects in 2016 and will also carry out a number of its own internal projects to assess compliance and the effectiveness of the company's internal controls.

- (a) Keep under review the adequacy and effectiveness of the company's internal control systems, report to the board regularly and make recommendations to the board regarding the effectiveness of the group's internal control systems. The Committee shall also instigate a number of internal audit projects in each financial year, which may include any of the following:
 - (i) identification, assessment and management of significant risks faced by the group;
 - (ii) reviews of the authority of those involved in managing significant risks;
 - (iii) responding to the significant risks which have been identified by management and others;
 - (iv) auditing compliance with the group's governance policies and procedures;
 - (v) monitoring of the relevant reports by the group's management;
 - (vi) the maintenance of a control environment directed towards the proper management of risk; and
 - (vii) annual reporting procedures.
- (b) 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 Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- (c) Review the company's procedures for detecting fraud.
- (d) Review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- (e) Consider from time to time appointing a "risk sub-committee" and (with any risk sub-committee) to keep abreast of all changes made to the group's system of internal controls and to follow up on areas which require improvement.
- (f) Review the Group's objectives and plans for the enhancement of internal controls and, in respect of those areas which are identified as the highest risk in the Group's

risk register, take reasonable steps to ensure that adequate resources are made available for the internal control of those risks.

- (g) Discuss any major findings and any problems identified in relation to the adequacy of controls, including (where the Committee considers it to be appropriate) recommending that a formal internal audit function is required.
- (h) Ascertain actions taken on recommendations.
- (i) Discuss the relationship between external auditors and those responsible for the Company's internal control systems, and co-ordination of their work.

7.4 *Other matters*

- (a) Enquire into illegal, questionable or unethical activities.
- (b) Monitor the adherence of officials to the corporate code of conduct.
- (c) Review any significant transactions outside the company's normal business.
- (d) Initiate special projects or investigations on any matter within its term of reference.
- (e) Review the efforts of the company to comply with social and environmental obligations.
- (f) Ensure that the board, and especially the non-executive directors, receive timely relevant and reliable information, tailored to assist them with monitoring the business and taking important decisions.
- (g) Consider other topics as defined by the board from time to time.
- (h) Oversee any investigation of activities which are within its terms of reference.
- (i) Give due consideration to laws and regulations, the provisions of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
- (j) Where requested by the board, the Audit 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.
- (k) Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board.

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 and shall also formally report to the board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 7.1(a)) and how these were addressed;
 - (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - (c) any other issues on which the board has requested the Audit Committee's opinion.
- 8.2 The Audit 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 Audit Committee shall compile a report on its activities to be included in the company's annual report. The report should include an explanation of how the Audit Committee has addressed the effectiveness of the external audit process; the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor.
- 8.4 In compiling the reports referred to in 8.1 and 8.3, the Audit Committee should exercise judgment 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 8.5 The Audit 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 Audit Committee and the board.