

ELECTRA PRIVATE EQUITY PLC
Terms of reference – Audit and Risk Committee
17 May 2018

1 Membership

1.1 The Committee shall comprise at least three¹ members, including a member of the Valuations Committee². Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit and Risk Committee³.

1.2 All members of the Committee shall be independent non-executive directors⁴ at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing.⁵ The Committee as a whole should have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee.⁶

1.3 Only members of the Committee and other non-executive directors have the right to attend Committee meetings. However, the external auditor, Executive Chairman and Chief Financial Officer 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 necessary⁷.

1.4 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

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 to enable full and proper consideration to be given to issues.⁸

¹ Or in the case of smaller companies (companies below the FTSE 350 index) two members (UK Corporate Governance Code published in April 2016 (the “Code”) provision C.3.1, FRC Guidance on Audit Committees published in April 2016 (“FRC Guidance”) para 9)

² This is a suggestion to address the issue of board committees having some overlapping agenda items.

³ FRC Guidance, para 13

⁴ Guidance on circumstances likely to affect independence is given in Code provision B.1.1. See also FRC Guidance para 14.

⁵ See Code provision C.3.1; DTR 7.1.1A R and FRC Guidance para 15 which also provides that the Audit committee as a whole shall have competence relative to the sector in which the Company operates, and set out recommended experience and skills of members.

⁶ Unless the company is a smaller company. See Code provisions regarding the independence of the Chairman: A.3.1, B.1.1 and footnote 5 of the Code. Provision C.3.1 of the Code provides that in smaller companies the company chairman may be a member of but not chair the committee provided he or she was independent on appointment as chairman. Except on appointment, the Chairman of the Company is not considered independent.

⁷ FRC Guidance, para 20

⁸ FRC Guidance, para 25

3 Quorum

3.1 The quorum necessary for the transaction of business shall be two members.⁹

4 Frequency of meetings

4.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.¹⁰

4.2 Outside the formal meeting programme, the Committee Chairman and to a lesser extent the other Committee members will maintain a dialogue with key individuals involved in the Company's governance, including the Executive Chairman, the Chief Financial Officer and the external audit lead partner.¹¹

5 Notice of meetings

5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner 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 no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time¹².

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 agreed with the Committee Chairman and then circulated promptly to all members of the Committee 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 to answer shareholder questions.¹³

8 Duties

The Committee should have oversight of the Group as a whole and unless required otherwise by regulation carry out the duties below for the parent Company, major subsidiary

⁹ Code provision C.3.1 requires that at least one member of the Committee has recent and relevant financial experience and DTR 7.1.1A R states that one committee members must have competence in accounting and/or auditing. It would therefore be preferable for any quorum to include such a member, whenever possible

¹⁰ FRC Guidance, para 18 the frequency and timing of meetings will differ according to the needs of the Company; meetings should be organised so that attendance is maximised. The FRC Guidance suggests key dates within the financial reporting and audit cycle might include: when the audit plan is available for review and when interim statements, preliminary announcements and the full annual report are near completion.

¹¹ FRC Guidance, para 22

¹² Copies of the agenda, papers and minutes may be circulated or made available to the other non-executive directors and to attendees as appropriate and as agreed.

¹³ Code provision E.2.3 and FRC Guidance, para 85

undertakings whose results are consolidated in the Group accounts. and the Group as a whole¹⁴.

A: Audit matters

8.1 Financial reporting

8.1.1 The Committee shall monitor the integrity of the consolidated financial statements of the Company, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.¹⁵

8.1.2 In particular, the Committee shall review and challenge where necessary:¹⁶

8.1.2.1 the application of, and any changes to, significant accounting policies;

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3 whether the Company has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements; and

8.1.2.4 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

8.1.3 The Committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

8.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.¹⁷

8.2 Narrative reporting

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 strategy¹⁸ and whether it informs the Board's statement in the annual report on these matters that is required under the Code¹⁹.

¹⁴ This drafting assumes that these Terms of Reference are adopted by a parent company of a group. FRC Guidance para 7.

¹⁵ Code provision C.3.2 and FRC Guidance para 32. See also FRC Guidance para 83, which clarifies that the audit committee would not be expected to disclose information that would be prejudicial to the interests of the company.

¹⁶ FRC Guidance, paras 32 to 38

¹⁷ FRC Guidance, para 35

¹⁸ Code provision C.3.4 and FRC Guidance, para 37

¹⁹ Code provision C.1.1

8.3 Internal controls and risk management systems²⁰

The Committee shall:

8.3.1 keep under review the Company's internal financial control systems that identify, assess, manage and monitor financial risks and other internal control and risk management systems;²¹ and

8.3.2 review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.²²

8.4 Compliance, whistleblowing and fraud²³

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;²⁴

8.4.2 review the Company's procedures for detecting fraud;

8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;²⁵

8.4.4 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

8.4.5 review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

8.5 Internal audit²⁶

The Committee shall consider annually whether there should be an internal audit function and make a recommendation to the Board accordingly; the absence of such a function should be explained in the annual report.

²⁰ If the Company has a separate risk committee review of internal controls and risk management systems could be included in the duties of that committee. See FRC Guidance paras 39-44

²¹ Code provision C.3.2 and FRC Guidance para 40.

²² Unless this is done by the board or risk committee. FRC Guidance para 44.

²³ If the board has a separate risk committee the duties of that committee could include whistleblowing, fraud, the prevention of bribery, and procedures for compliance with the Modern Slavery Act 2015. Where the company is required by regulation to have in place a designated non-executive director as 'whistle-blower's champion', the interaction of their responsibility with the committee's will need to be considered and suitable arrangements put in place.

²⁴ Code provision C.3.5

²⁶ If the Company does not have an internal audit function, the committee should consider annually whether there should be one and make a recommendation to the board accordingly; the absence of such a function should be explained in the annual report Code provision C.3.6 and FRC Guidance 46. See also FRC Guidance para 45, 47 and 56.

8.6 External audit

The Committee is the body responsible for overseeing the Company's relations with the external auditor. 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;²⁷

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;²⁸

8.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;²⁹

8.6.4 oversee the relationship with the external auditor. In this context the Committee shall :

8.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;³⁰

8.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;³¹

8.6.5 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard³² 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 threats³³ including the provision of any non-audit services;

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 objectivity³⁴ ;

8.6.7 agree with the Board a policy on the employment by the Company of former employees of the Company's auditor, taking into account the Ethical Standard³⁵ and legal requirements and monitoring the implementation of this policy;³⁶

²⁷ See Code provision C.3.7 and FRC Guidance paras 58 and 60.

²⁸ FRC Guidance para 59. For large companies see also part 5 of the Competition and Markets Authority: The Statutory Audit Services for large companies market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

²⁹ FRC Guidance, para 61

³⁰ FRC Guidance, para 63, 65

³¹ FRC Guidance, para 63 and 64

³² FRC Ethical Standard June 2016

³³ FRC Guidance para 66

³⁴ FRC Guidance para 66

³⁵ FRC Ethical Standard June 2016

³⁶ FRC Guidance, para 69

8.6.8 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulations, other professional requirements and the Ethical Standard, including the guidance on rotation of audit partner and staff³⁷;

8.6.9 monitor the level of fees paid by the Company to the external auditor compared with 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 Standard³⁸;

8.6.10 assess annually the qualifications, expertise and resources and independence of the auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures³⁹;

8.6.11 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee⁴⁰; and

8.6.12 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.⁴¹ The policy should include consideration of the following matters:

- 8.6.12.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
- 8.6.12.2 the nature of the non-audit services;
- 8.6.12.3 whether the external audit firm is the most suitable supplier of the non-audit service;
- 8.6.12.4 the fees for the non-audit service both individually and in aggregate relative to the audit fee; and
- 8.6.12.5 the criteria governing compensation;⁴²

8.6.13 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 auditor's remit and any issues arising from the audit;⁴³

8.6.14 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;⁴⁴

³⁷ FRC Guidance paras 66, 67, 68 and 70

³⁸ FRC Guidance para 67; Ethical Standard section 4

³⁹ FRC Guidance para 60

⁴⁰ FRC Guidance para 62

⁴¹ FRC Guidance paras 71, 73 and 74

⁴² FRC Guidance para 72

⁴³ FRC Guidance, para 21

⁴⁴ FRC Guidance, para 75

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

8.6.15.1 a discussion of any major issues which arose during the audit;

8.6.15.2 an explanation from the auditor of how the risks to audit quality were addressed;

8.6.15.3 key accounting and audit judgements;

8.6.15.4 the auditor's view of their interactions with senior management; and

8.6.15.5 levels of errors identified during the audit⁴⁵

8.6.16 review any representation letter(s) requested by the external auditor before they are signed by management;⁴⁶

8.6.17 review the management letter and management's response to the auditor's findings and recommendations;⁴⁷ and

8.6.18 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor and the auditor's response to questions from the Committee.⁴⁸

B: Risk matters

The Committee shall:

8.7 advise the board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Company's risk policies⁴⁹.

8.8 oversee and advise the board on the current risk exposures of the Company and future risk strategy⁵⁰.

8.9 in relation to risk assessment:

8.9.1 keep under review the Company's overall risk assessment processes that inform the board's decision making, ensuring both qualitative and quantitative metrics are used;

8.9.2 review regularly and approve the parameters used in these measures and the methodology adopted; and

8.9.3 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance⁵¹.

⁴⁵ FRC Guidance, para 76

⁴⁶ FRC Guidance, para 77

⁴⁷ FRC Guidance, para 77

⁴⁸ FRC Guidance, para 78

⁴⁹ The Walker Review, Recommendation 23, Page 19 and Chapter 6: Paragraph 6.18, Pages 96-97

⁵⁰ The Walker Review, Recommendation 23, Page 19

⁵¹ The Walker Review, Chapter 6: Paragraph 6.19, Page 97

8.10 review the Company's capability to identify and manage new risk types.

8.11 before a decision to proceed is taken by the board, advise the board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available⁵².

8.12 review reports on any material breaches of risk limits and the adequacy of proposed action.

8.13 provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration⁵³.

8.14 consider and approve the remit of the risk management 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 independence⁵⁴ and is free from management and other restrictions.

8.15 consider the need for the appointment of a separate Chief Risk Officer ("CRO") and if thought necessary recommend to the board the appointment and/or removal of a CRO. For the time being, the CFO will act as the CRO. The Committee will

8.15.1 review promptly all reports on the Company from the CRO;

8.15.2 review and monitor management's responsiveness to the findings and recommendations of the CRO; and

8.15.3 ensure the CRO shall be given the right of unfettered direct access to the chairman of the board and to the Committee⁵⁵; and

8.16 work and liaise as necessary with all other board committees.

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 8.6.10), the approach taken to the appointment or reappointment of the

⁵² The Walker Review, Recommendation 26, Page 20

⁵³ The Walker Review, Chapter 6: Paragraph 6.18, Pages 96-97

⁵⁴ The Walker Review, Chapter 6: Paragraph 6.21, Page 98

⁵⁵ Financial Stability Board, Thematic Review on Risk Governance, Recommendation 1, iii, Page 4

external auditor, length of tenure of the 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 opinion⁵⁶.

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, inter alia:

- an explanation of how the Committee has addressed the effectiveness of the external audit process;
- 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;
- all other information requirements set out in the Code⁵⁷;
- details of the Company's risk management and strategy⁵⁸; and
- the risk management objectives and policies including in relation to financial instruments⁵⁹.

9.4 In the 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 statement⁶⁰. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information⁶¹.

10 Executive Committees

10.1 The Committee shall establish such executive committees ("Executive Committee(s)") as it considers appropriate, which will report to the Committee, and will appoint the Chairman of each Executive Committee. The first such Committees shall be the Risk and Compliance Committee and the Financial Reporting Committee.

10.2 The Terms of Reference for each Executive Committee will be reviewed and presented by the Chairman of that Executive Committee for approval by the Chairman of the Audit and Risk Committee at least once a year and as required.

10.3 Minutes of the meetings of each Executive Committee will be circulated, after approval by the Chairman of that Committee, to the Chairman of the Audit and Risk Committee, unless there is a conflict of interest.

⁵⁶ FRC Guidance para 29 and Code provision C.3.8.

⁵⁷ FRC Guidance para 81. See also revisions to ISA 700 (UK and Ireland), the independent auditor's report on financial statements issued 4 June 2013 which reflect changes made to the Code in Sept 2012

⁵⁸ The Walker Review, Recommendation 27, Page 20

⁵⁹ Schedule 7 para 6 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410); DTR 4.1.11(6)

⁶⁰ FRC Guidance paras 82 and 84.

⁶¹ FRC Guidance para 84.

10.4 The Committee may direct each Executive Committee to carry out any work that it considers appropriate.

11 Other matters

The Committee shall:

11.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;⁶²

11.2 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 members⁶³;

11.3 give due consideration to relevant laws and regulations, the provisions of the 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;

11.4 oversee any investigation of activities which are within its terms of reference;

11.5 work and liaise as necessary with all other Board Committees;

11.6 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 Board⁶⁴.

12 Authority

The Committee is authorised to:

12.1 seek any information it requires from any employee of the Company in order to perform its duties;

12.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;⁶⁵

12.3 call any employee to be questioned at a meeting of the Committee as and when required; and

12.3 have the right to publish, in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board⁶⁶.

13. Adoption of terms of reference

These terms of reference were approved by the Board of directors on 17 May 2018.

⁶² Code provision B.5.2 and FRC guidance, para 23

⁶³ Code supporting principles B.4 and Code provisions B.4.1 and B.4.2: and FRC guidance paras 16 and 17

⁶⁴ Code principle B.6 and FRC guidance para 81

⁶⁵ Code provision B.5.1 and FRC guidance, para 26

⁶⁶ FRC Guidance para 30.