

## STOCK SPIRITS GROUP PLC

### AUDIT COMMITTEE TERMS OF REFERENCE

The following are the terms of reference of the Audit Committee (the “**Audit Committee**”) of **Stock Spirits Group PLC** (the “**Company**”) and its subsidiaries (together, the “**Group**”).

#### 1. Membership

- 1.1 The membership of the Audit Committee shall comprise at least three independent non-executive directors who shall be independent of management and free of any relationship which could interfere with the exercise of their independent judgement. The chairman of the board of directors of the Company (the “**Board**”) shall not be a member of the Audit Committee. If the Company has a Risk Committee, membership of the Audit Committee shall include at least one member of the Risk Committee.
- 1.2 At least one member of the Audit Committee should have significant, recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 1.3 Appointments to the Audit Committee shall be for a period of up to three years, which are extendable by no more than two additional three-year periods, provided that the director continues to be independent, and provided the director still meets the criteria for membership of the Audit Committee.
- 1.4 The external auditors shall be invited to attend meetings of the Committee on a regular basis.
- 1.5 The Board shall appoint the Audit Committee chairman (the “**Chairman**”), who shall be an independent non-executive director. In the absence of the Chairman, the remaining members present shall elect one of their number to chair the meeting.
- 1.6 Members of the Audit Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman.
- 1.7 The Company Secretary is the secretary of the Committee (the “**Secretary**”).

#### 2. Quorum

- 2.1 A quorum for the Audit Committee is two Audit Committee members, both of whom must be independent non-executive directors and at least one of whom should have significant, recent and relevant financial experience.
- 2.2 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.

#### 3. Frequency of meetings

- 3.1 The Audit Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. Any Audit Committee member or the Secretary may call additional meetings as necessary. Meetings can be convened by telephone when necessary.

#### **4. Notice of meetings**

- 4.1 Meetings of the Audit Committee shall be called by the Secretary at the request of the members of the Committee, or at the request of the external lead partner or head of internal audit if they consider it necessary.
- 4.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Audit Committee, and to other attendees as appropriate, no later than five working days before the date of the meeting. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate, at the same time.
- 4.3 The Secretary shall attend all its meetings and shall prepare and circulate to members and all other Non-Executive Directors (and invitees, as appropriate) all information and papers in a timely manner to enable them to give full and proper consideration to the issues.

#### **5. Proceedings of the Committee**

- 5.1 Only members of the Committee have the right to attend meetings but the Audit Committee may invite or require other persons to attend meetings where appropriate to assist in the effective discharge of the Audit Committee's duties. The Chief Financial Officer; head of Internal Audit, Risk & Compliance, representatives of Internal Audit together with a representative of the external auditors, will normally be in attendance at meetings, or for selected agenda items as considered appropriate by the Chairman.
- 5.2 At least once a year the Audit Committee will meet the external auditors without executive directors or other management present.
- 5.3 At least once a year the Audit Committee will meet the Internal Audit representative without executive directors or other management present, and the Audit Committee shall receive a report on the results of the internal auditors work on a periodic basis.
- 5.4 The Internal Audit representative shall have direct access to the Chairman and the chairman of the Board and is accountable to the Audit Committee.
- 5.5 Similarly, the Audit Committee may meet separately with any of the executive directors without any other executive directors being present.
- 5.6 The Chairman will be available to the Secretary and the head of Internal Audit, Risk & Compliance to discuss any matters of concern in relation to financial reporting matters, internal control concerns or compliance with the Group's legal and regulatory obligations, in the widest sense, should this be considered necessary by those individuals.

- 5.7 The Audit Committee shall approve the appointment or termination of appointment of the head of Internal Audit, Risk & Compliance.
- 5.8 The terms of reference and the effectiveness of the Audit Committee shall be reviewed at least annually and any necessary recommendations made to the Board.
- 5.9 The external auditors and the Finance Director of the Company shall be invited to attend meetings of the Audit Committee on a regular basis.
- 5.10 The Chairman shall maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, Chief Executive Officer, Finance Director, external audit lead partner and the head of internal audit.

## **6. Minutes of meetings**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Audit Committee, including recording the names of those present and in attendance. The Secretary shall also ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.2 The minutes of meetings of the Audit Committee are circulated to all members of the Audit Committee and to nominated recipients as soon as practicable after the meeting. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so.

## **7. Annual general meeting**

- 7.1 The Chairman shall attend the annual general meeting prepared to respond to any shareholder questions on the Audit Committee's activities and responsibilities.

## **8. Authority**

- 8.1 The Audit Committee is authorised by the Board to undertake any activity within its terms of reference. The Audit Committee is entitled to sufficient resources from the Group to undertake its duties and may at any time request Internal Audit or the head of Internal Audit, Risk & Compliance to carry out such independent reviews as it deems necessary and report back to the Audit Committee.
- 8.2 Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the Chairman having a second, casting vote in the event of a tie. An Audit Committee member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.
- 8.3 The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 8.4 The Committee is authorised to obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so.

- 8.5 The Committee may call any employee to be questioned at a meeting of the Committee as and when required.
- 8.6 It is the responsibility of the Chairman to develop detailed terms of reference for the Audit Committee for approval by the Board and to ensure the effectiveness and efficiency of the Audit Committee.

## **9. Responsibilities**

### 9.1 The Audit Committee shall:

- (A) oversee the Group's relationship with the external auditors (including, but not limited to, monitoring the external auditors' compliance with relevant ethical and professional guidelines and seeking to ensure coordination with the Internal Audit function) and, at least annually, formally review that relationship, which shall include a report from the external auditor on their internal quality procedures;
- (B) evaluate the risks to the quality and effectiveness of the financial reporting process and consider in that evaluation the need to include the risk of the withdrawal of their auditor from the market;
- (C) consider the appointment or re-appointment of the external auditors, and approve the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit. If the auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (D) review and agree with the external auditors the result and, taking into account applicable UK professional and regulatory requirements, effectiveness of the audit;
- (E) review and monitor from time to time and at least annually the cost effectiveness of the audit and the qualification, expertise, independence and objectivity of the external auditors, including reviewing the nature and extent of non-audit and consultancy services supplied to the Group by the external auditors;
- (F) recommend to the Board the external auditors remuneration, including both fees for audit and non audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- (G) develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidelines concerning the provision of non-audit services, and report to the Board any matters requiring action or improvement and the recommendations of the Audit Committee as to the steps to be taken to remedy the issues;
- (H) review, with the external auditors, the relationships between the Company and the external auditors and the policies and procedures for maintaining

independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

- (I) satisfy itself that there are no relationships such as family, employment, investment, financial or business between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (J) ensure that at least once every ten years, the audit services contract is put out to tender to enable the Audit Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those 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 duration of the tendering process.
- (K) agree with the Board a policy on the employment of former employees of the Company's auditor, and monitor the implementation of this policy;
- (L) review the findings of the audit with the external auditor including a discussion of major issues that arose, key accounting and audit judgements, levels of errors identified during the audit and the effectiveness of the audit process;
- (M) review any representation letters requested by the external auditor before the are signed by management, the management letter and management's response to the auditor's findings and recommendations.

9.2 The Audit Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, quarterly financial statements and/or interim management statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. In particular, the Audit Committee shall review and challenge where necessary:

- (A) compliance with legal, regulatory and statutory requirements;
- (B) compliance with the requirements of any body by which the activities of the Group or its subsidiaries are regulated;
- (C) the appropriateness of the material judgements and estimates made in the course of preparation of the accounts;
- (D) the section of the Directors' Report which describes the role and responsibilities of the Audit Committee and the actions taken by the Audit Committee to discharge those responsibilities;
- (E) significant adjustments resulting from the audit;

- 9.3 The Audit Committee shall consider any issues raised by executive management and the external auditors relating to the interim review and year end audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary).
- 9.4 The Audit Committee shall also:
- (A) review and approve the charter of the Internal Audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate;
  - (B) review and assess the annual internal audit work plan;
  - (C) receive a report on the results of the internal auditor's work on a periodic basis;
  - (D) review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
  - (E) monitor and review the effectiveness of the Company's Internal Audit function.
  - (F) approve the appointment or termination of appointment of the head of internal audit;
  - (G) ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
  - (H) meet with the head of internal audit at least once a year without the presence of management.
- 9.5 The Audit Committee shall consider any statements or reports presented to the Audit Committee (whether issued internally or by external bodies, including regulatory bodies, external auditors, consultants, advisors or other persons) relating to any regulatory or supervisory investigations, enquiries, visits or other regulatory or compliance-related matters and the appropriateness of management's response (if any is required).
- 9.6 Where requested by the Board, the Audit Committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.
- 9.7 The Committee shall review and challenge where necessary:
- (A) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/Group;
  - (B) the methods used to account for significant or unusual transactions where different approaches are possible;

- (C) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (D) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (E) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management;

9.8 The Audit Committee exercises its internal control and risk management role through the reports it receives from internal and external auditors; from the head of Internal Audit, Risk & Compliance; and from executive management. The Audit Committee:

- (A) reviews, on behalf of the Board and executive management, the effectiveness of the Group's system of internal control (including financial, operational, compliance and risk management);
- (B) reviews and approves the statements to be included in the annual report concerning internal controls and risk management;
- (C) reviews the processes and procedures for ensuring that material financial risks are properly identified and managed and that appropriate systems of monitoring and control are in place. The identification of Business risk is reserved for the Board's consideration. receives regular reports on significant litigation and compliance issues involving the Group;
- (D) considers the appropriateness of the "whistleblowing" procedures and the key issues emerging on a regular basis;
- (E) reviews the Company's procedures for protecting against fraud;
- (F) reviews the Company's processes and procedures for ensuring that applicable regulatory requirements are complied with;
- (G) reviews the Company's systems and controls for the prevention of bribery and receives reports on non-compliance;
- (H) reviews 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;
- (I) reviews the corporate risk register and considers mitigating actions;

- (J) considers the business compliance focus log; and
- (K) considers other matters, as determined by the Board.

## **10. Reporting responsibilities**

- 10.1 The Chairman shall report to the Board on the Audit Committee's proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities.
- 10.2 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, and shall report to the Board its views if it is not satisfied with any aspect of the proposed financial reporting by the Company.
- 10.3 The Audit Committee shall formally report to the Board on how it has discharged its duties and responsibilities. This report shall include :
  - (A) the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed;
  - (B) an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
  - (C) if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- 10.4 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.
- 10.5 The Committee shall compile a report on its activities to be included in the Company's annual report. The report shall include 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.
- 10.6 In compiling the reports referred to in 10.3 and 10.5, 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 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.

## **11. Other matters**

- 11.1 The Audit Committee shall:

- (A) have access to sufficient resources in order to carry out its duties, including access to other Group functions for assistance as required;
- (B) 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;
- (C) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (D) oversee any investigation of activities which are within its terms of reference;
- (E) 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 for approval;
- (F) be responsible for co-ordination of the internal and external auditors; and
- (G) work and liaise as necessary with all other Board Committees.

These terms of reference were reviewed and approved by the Board on 24 January 2014.