

**MELROSE INDUSTRIES PLC**  
**(the “Company”)**

**AUDIT COMMITTEE**  
**(the “Committee”)**

**Composition and Terms of Reference**

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**Purpose**

The purpose of the Audit Committee (the “**Committee**”) is to monitor the integrity of financial statements of the Company and the group as a whole (the “**Melrose Group**”), to review accounting policies and procedures, to monitor the effectiveness of financial reporting, internal control and risk management systems, to ensure compliance with statutory requirements, to review the internal audit function and to oversee the relationship with external auditors and to consider any matters raised by the external auditors.

The Committee is established in accordance with article 92 of the Articles of Association of the Company.

**1. Membership**

- 1.1 The Committee shall consist of not less than three members and, where possible, one member of the Remuneration Committee.
- 1.2 Members of the Committee shall be appointed by the Board of the Company, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Audit Committee.
- 1.3 All members of the Committee shall be independent non-executive Directors at least one of whom shall have recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board of the Company shall not be a member of the Committee.

- 1.4 No one other than a Committee Member is entitled to attend meetings of the Committee but upon invitation the Chairman, Chief Executive, Finance Director, other Directors of the Company and other persons may attend meetings of the Committee whenever considered appropriate by the Committee.
- 1.5 Representatives of the external auditors will be invited to attend meetings of the Committee on a regular basis. At least one meeting a year, or part thereof, the external and internal auditors shall attend without management present.
- 1.6 Appointments to the Committee shall be for a period of up to three years, subject to annual re-election as a board member, which may be extended by two further three-year periods, provided the member remains independent.
- 1.7 The Chairman of the Committee shall be appointed by the board, from amongst the independent non-executive directors. In the absence of the Committee Chairman the remaining members present shall elect one of themselves to chair the meeting.

## **2. Secretary**

The Secretary of the Committee shall be the Secretary of the Company 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.

## **3. Quorum**

A quorum shall be any two members of the Committee.

## **4. Frequency of Meetings**

- 4.1 Meetings shall be held not less than three times a year at appropriate times in the financial reporting and audit cycles, and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chairman will 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 partner and the head of internal audit.

## **5. Notice of Meetings**

- 5.1 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 an executive Director, the external auditors, or the head of internal audit if they consider it necessary.
- 5.2 Unless otherwise agreed, the notice of each meetings confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee and any other person required to attend, generally no later than 5 working days before the date of the meeting.

## **6. Minutes**

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

## **7. Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting of the Company prepared to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **8.1 *Financial reporting***

The Committee shall:

8.1.1 review and monitor the integrity of the financial statements of the Melrose Group, including its half-yearly account and the annual report, interim management statements (if produced) and any other formal announcements relating to the financial performance of the Melrose Group, and reviewing and reporting to the board on significant financial reporting issues and judgements which they contain;

8.1.2 focus particularly on and challenge where necessary:

- the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Melrose Group;
- the methods used to account for significant or unusual transactions where different approaches are possible, including any significant areas where the Directors' judgement has been exercised;
- the going concern assumption and the assessment forming the basis of the longer term viability statement;
- compliance with appropriate accounting standards and appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management functions); and
- other legal, UK Listing Authority or recognised investment exchange requirements; and

8.1.3 submit the documents referred to in paragraph 8.1.1 to the Board for its approval and to determine what information should be brought to the Board's attention in connection with that submission.

## 8.2 ***Narrative Reporting***

Where requested by the Board, 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, balance and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## 8.3 ***Internal controls and risk management systems***

The Committee shall:

- 8.3.1 monitor and, at least annually, carry out a review of the effectiveness of the Company's internal controls and risk management systems;
- 8.3.2 consider, and make such recommendations to the Board as necessary regarding, an acceptable risk appetite level for the Melrose Group;
- 8.3.3 review any statement on internal control and/or risk management to be included in the annual report before submission to the Board for its approval; and
- 8.3.4 annually consider whether there should be an internal audit function and make a recommendation to the Board accordingly.

## 8.4 ***Compliance, whistleblowing and fraud***

The Committee shall:

- 8.4.1 review the Company's arrangements for its employees 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;
- 8.4.2 instigate, and consider the findings of, any investigations it may deem necessary;
- 8.4.3 review the Company's procedures for detecting fraud; and
- 8.4.4 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 8.5 ***Internal audit***

The Committee shall:

- 8.5.1 approve the appointment or termination of appointment of the head of internal audit;
- 8.5.2 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, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.3 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
- 8.5.4 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;

- 8.5.5 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 8.5.6 meet with the head of internal audit at least once a year without the presence of management;
- 8.5.7 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.5.8 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
- 8.5.9 review and monitor management's responsiveness to the internal auditor's findings and recommendations.

## 8.6 **External audit**

The Committee shall:

- 8.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the external auditor;
- 8.6.2 ensure that, as required by regulation, 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 supervise 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;
- 8.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4 oversee the relationship with the external auditor including:
  - review of their remuneration, whether for audit or non-audit services and consider whether the level of fees is appropriate to enable an adequate audit to be conducted;
  - review of the terms of engagement, the nature and scope of their work;
  - assessing annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services;
  - satisfy itself that there are no relationships (family, employment, investment) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- agree with the Board policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;
  - monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - assess annually the auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - seek to ensure co-ordination with the activities of the internal audit function; and
  - 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 their auditor from the market in the evaluation;
- 8.6.5 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. Act as a forum for discussion of areas of concern arising from the final audit, or matters the auditors may wish to discuss;
- 8.6.6 review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 8.6.7 review the findings of the audit with the external auditor, including:
- how they addressed the risks to audit quality which the Committee identified at the planning stage;
  - the auditor's perception of the interaction with senior management and other members of the financial team;
  - a discussion of any major issues which arose during the audit;
  - any accounting and audit judgements;
  - levels of errors identified during the audit; and
  - the effectiveness of the audit process.

The Committee shall also:

- 8.6.8 authorise the external auditor to provide non-audit services prior to the commencement of those non-audit services;
- 8.6.9 review any representation letters requested by the external auditors before they are signed by management;
- 8.6.10 review management's response to auditor's findings and recommendations; and

8.6.11 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 pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:

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

## 8.7 **Reporting**

The Committee shall:

8.7.1 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:

- the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
- its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- any other issues on which the Board has requested the Committee's opinion;

8.7.2 make whatever recommendation to the Board it deems appropriate on any area within its remit where action or improvement is needed;

8.7.3 compile a report to shareholders on its activities to be included in the Company's annual report. The report should 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; and all other information requirements set out in the Code; and

8.7.4 in the compiling of the reports in 8.7.1 and 8.7.3, 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. The report to shareholders need not repeat

information disclosed elsewhere in the annual report and accounts, but could provide cross-reference to that information.

## 8.8 **Other**

The Committee shall:

- 8.8.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 8.8.2 be provided with appropriate and timely training, both on induction and ongoing for all members;
- 8.8.3 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 as appropriate;
- 8.8.4 be responsible for oversight of the internal and external auditors;
- 8.8.5 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- 8.8.6 work and liaise as necessary with all other Board Committees; and
- 8.8.7 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at a maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## 9. **Authority**

The Committee is authorised by the Board to:

- 9.1 investigate any activity within its terms of reference;
- 9.2 obtain independent professional advice on any matter it considers appropriate to its terms of reference;
- 9.3 seek any information it requires from any employee of the Melrose Group (and all employees are directed to co-operate with any request made by the Committee);
- 9.4 invite anyone that it considers to have relevant knowledge and experience to attend its meetings as necessary; and
- 9.5 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.

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