

# ASTON MARTIN LAGONDA

## AUDIT & RISK COMMITTEE TERMS OF REFERENCE

The purpose of the Audit and Risk Committee (the “**Committee**”) is to assist the board of Aston Martin Lagonda Global Holdings plc (the “**Company**”) in providing formal and transparent arrangements for reviewing and monitoring:

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

### 1. CONSTITUTION

- 1.1 The Committee was constituted as a sub-committee of the board of directors of the Company (the “**Board**”), subject to the Company’s shares being admitted to the premium listing segment of the Official List of the FCA and to trading on the LSE’s main market for listed securities, at a meeting held on 19 September 2018.
- 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.

### 2. GOVERNANCE

- 2.1 The chairman of the Committee is appointed by the Board (“**Chairman**”).
- 2.2 At all times, the Committee will comprise a minimum of three members and, where possible, a member of the Remuneration Committee. The members of the Committee are appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman.
- 2.3 The Company Secretary or nominee will act as the secretary of the Committee (the “**Secretary**”), who will provide all necessary support to the Committee, including recording Committee minutes, and circulating notices of meetings, minutes, information and papers to Committee members in a timely manner to enable full and proper consideration to be given to the issues.
- 2.4 Appointments to the Committee will be for a period of three years (subject to the relevant director remaining a member of the Board), which may be extended by the Board for up to two further periods of up to three years, provided that the director still meets the criteria for membership of the Committee.
- 2.5 At least three members of the Committee, including the Chairman, shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. Additionally, a maximum of two non-independent directors may be appointed as members of the Committee until the date which is 12 months after the constitution of the Committee. The chairman of the Board shall not be a member of the Committee.
- 2.6 The Committee meets at least three times per year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. Outside of the formal meeting programme, the Chairman, and to a lesser extent the other Committee members, shall maintain a dialogue with key individuals involved in the Company’s governance, including the chairman of the Board, the Chief Executive Officer, the Chief Financial Officer (“**CFO**”), the external audit lead partner and (if appointed) the head of internal audit. The Committee will maintain effective working relationships with these individuals and the other Board committees.
- 2.7 Draft minutes of Committee meetings shall be agreed with the Chairman and then promptly circulated to all Committee members, unless it would be inappropriate to do so in the opinion of the Chairman.
- 2.8 Any member of the Committee (including the Secretary), as well as the external audit lead partner and (if appointed) the head of internal audit, has the power to call a meeting.
- 2.9 Unless otherwise agreed by the Committee, 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 Committee (and to other attendees where appropriate) no later than five working days before the date of the meeting. The Chairman has sole discretion to reduce the above notice period to whatever the Chairman considers appropriate in the circumstances.
- 2.10 The quorum for the Committee is two independent non-executive directors (and, where possible, at least one of the members present in any quorum shall have significant recent and relevant financial experience) and in the absence of the Chairman, the other members present shall choose one of them to chair the meeting.

- 2.11 A duly convened meeting of the 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 Committee.
- 2.12 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).
- 2.13 The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary shall minute them accordingly). 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.
- 2.14 Decisions of the Committee will be made by majority vote. In the event of an equality of votes, except where he has a personal interest, the Chairman shall have a casting vote. Any member of the Committee who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes.
- 2.15 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, finance director, HR director and any relevant senior management, external auditors and/ or external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary and with the agreement of the Chairman. The CFO, the external audit lead partner and (if appointed) the head of internal audit should be invited to attend meetings of the Committee on a regular basis.
- 2.16 If, pursuant to paragraph 3.5 below, the Company has determined that it requires an internal audit function, then the Committee will meet the head of the internal audit function and, if deemed necessary, the external auditors at least once a year without the executive directors or other management being present. In addition, the head of the internal audit function will have the right of direct access to the Chairman.

### **3. DUTIES**

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

#### **3.1 FINANCIAL STATEMENTS**

The Committee will:

- (a) monitor the integrity of the financial statements of the Company and its group (including annual and half-yearly reports and interim management statements), and any preliminary or formal announcements relating to the Company's financial performance;
- (b) review and report to the Board on significant financial reporting issues and judgements contained in the financial statements, interim statements and preliminary and formal announcements, having regard to matters communicated to it by the auditor;
- (c) monitor compliance with financial reporting standards, taking into account requirements of any applicable recognised investment exchange and other financial and governance reporting requirements, including reviewing minutes of meetings of the Disclosure Committee;
- (d) consider any issues raised by the 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 the executive directors or other management, where necessary);
- (e) assess the effectiveness of the Group's financial reporting procedures;
- (f) review and challenge where necessary:
  - (i) the consistency of, and any changes to, significant accounting policies on a year on year basis and across the Company and its group;
  - (ii) whether the Company has followed appropriate accounting standards and made appropriate accounting estimates and judgements, taking into account the external auditor's views;
  - (iii) review the appropriateness of the material judgements and estimates made in the course of preparation of the accounts, taking into account the views of the external auditor;
  - (iv) the clarity and completeness of financial reporting disclosures and the context in which statements are made;
  - (v) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (vi) all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to audit and risk management;
  - (vii) where practicable, all other statements containing financial information that require Board approval;

- (viii) annual financial statements of any pension scheme relating to the Company or its group;
- (ix) significant adjustments resulting from the external audit; and
- (x) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it will report its views to the Board.

### 3.2 **NARRATIVE REPORTING**

Where requested by the Board, the Committee will 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 will:

- (a) review and monitor the adequacy and effectiveness of the Company's internal financial reporting and internal control systems that identify, assess, manage, monitor and report financial risks, and other internal control and risk management systems and carry out regular reviews of their effectiveness;
- (b) 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 provide advice on the management and mitigation of those risks;
- (c) oversee and advise the Board on the Company's and its group's current risk exposure and future risk strategy;
- (d) review and approve the statements to be included in the annual report concerning risk management and internal controls.
- (e) review the Company's capability to identify and manage new risk types;
- (f) before a decision to proceed is taken by the Board, advise on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available;
- (g) review reports on any material breaches of risk limits and the adequacy of proposed action;
- (h) keep under review the effectiveness of the Company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management;
- (i) provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration;
- (j) 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 independence and is free from management and other restrictions; and
- (k) work and liaise as necessary with all other Board committees.

### 3.4 **COMPLIANCE, WHISTLEBLOWING AND FRAUD**

The Committee will:

- (a) 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 will ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery and/or money laundering and receive reports on non-compliance; and
- (d) review and monitor significant findings from major investigations, including those arising from the Group's whistleblowing policy and management's response to such matters;
- (e) review the Company's compliance with legal, regulatory and statutory requirements (or the requirements of any body by which the activities of the Group are regulated).

### 3.5 **INTERNAL AUDIT**

The Committee will consider annually whether the Company requires an internal audit function. If such a function is established the Committee will:

- (a) approve the appointment (or removal) of the head of the internal audit function;
- (b) review and approve the remit of the internal audit function and monitor and ensure it has the necessary resources, appropriate access to information and is equipped to perform its function effectively and in accordance with appropriate professional standards for internal auditors;
- (c) ensure the internal audit function has direct access to the chairman of the Board, the Chairman and is accountable to the Committee;
- (d) review and assess the annual internal audit plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors;
- (e) receive a report on the results of the internal auditor's work on a periodic basis;
- (f) review and monitor management's responsiveness to the internal auditors' findings and recommendations;
- (g) ensure there is open communication between the different functions and that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- (h) ensure that the Committee meets with the head of internal audit, without the executive directors or other management present, at least once per year; and
- (i) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

### 3.6 **EXTERNAL AUDIT**

The Committee will:

- (a) consider and make formal recommendations to the Board in relation to the appointment, reappointment and/or removal of the Company's external auditor (whilst retaining primary responsibility for such appointments);
- (b) ensure that at least once every ten 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, it will oversee the selection process and ensure all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- (d) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (e) oversee the relationship with the external auditor (including without limitation):
  - (i) monitoring the level of fees paid by the company to the external auditor compared to 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 Standard;
  - (ii) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) specifying a policy for the pre-approval of permitted non-audit services (including setting materiality thresholds based on the value of the proposed non-audit service engagements), as well as approving non-audit services that fall outside such policy;
  - (iv) assessing annually their independence and objectively taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (v) assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - (vi) investigating the issues leading to any resignation of an external auditor and deciding whether any action is required;
  - (vii) ensuring co-ordination with the internal audit function (if relevant); and
  - (viii) evaluating the risks to the quality and effectiveness of the financial reporting process and considering the need to include the risk of the withdrawal of the external auditor from the market in that evaluation;
- (f) 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;

- (g) 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 other management being present, to discuss the auditor's remit and the findings of the audit including (without limitation):
  - (i) any major resolved or unresolved issues that arose during the audit;
  - (ii) the auditor's explanation of how risks to audit quality were addressed;
  - (iii) key accounting and audit judgements;
  - (iv) the auditor's view of their interactions with management;
  - (v) levels of errors identified during the audit; and
  - (vi) the effectiveness of the audit;
- (h) review any representation letter(s) requested by the external auditor before they are signed by management; and
- (i) review the management letter and management's response to the auditor's findings and recommendations.

#### **4. REPORTING RESPONSIBILITIES**

- 4.1 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:
  - (i) the significant issues that it considered in relation to the financial statements and how they were addressed;
  - (ii) its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (iii) any other issues on which the Board has requested the Committee's opinion.
- 4.2 **The Committee shall share its papers with all members of the Board.**
- 4.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 4.4 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 principal risks facing the Company (including those that would threaten its business model, future performance, solvency or liquidity) and how these risks are being managed and mitigated; 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 UK Corporate Governance Code.
- 4.5 In compiling the reports referred to above, the Committee shall 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 statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 4.6 The Chairman shall attend the annual general meeting of the Company prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

#### **5. OTHER MATTERS**

The Committee will:

- 5.1 work and liaise as necessary with all other Company committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees;
- 5.2 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 5.3 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;
- 5.4 give due consideration to applicable laws and regulations and (if applicable) the UK Corporate Governance Code and the requirements of the UK Listing Rules and the UK Listing Authority's Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 5.5 be responsible for co-ordination of the internal and external auditors;
- 5.6 oversee any investigation of activities which are within its Terms of Reference; and

- 5.7 arrange for periodic reviews of its own performance, its constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

## 6. **AUTHORITY**

The Board authorises the Committee to carry out the duties set out in these Terms of Reference, and the Committee is authorised to:

- 6.1 have unrestricted access to the Company's documents and information;
- 6.2 seek any information it requires from any employee of the Company and its group, and all employees are directed to co-operate with any request made by the Committee;
- 6.3 obtain, at the Company's expense, outside legal or other professional advice on any matter within these Terms of Reference;
- 6.4 call any employee to attend a meeting of the Committee as and when required; and
- 6.5 publish in the Company's annual report details of any issues that have not been resolved between the Committee and the Board.