

NATIONAL EXPRESS GROUP PLC

**AUDIT COMMITTEE
OF THE BOARD**

TERMS OF REFERENCE

Approved 28 July 2020

NATIONAL EXPRESS GROUP PLC

AUDIT COMMITTEE – TERMS OF REFERENCE

Note: References to: “Committee” shall mean the Audit Committee; “Board” shall mean the Board of Directors; “Company” shall mean National Express Group PLC; “Group” shall mean National Express Group PLC and its subsidiaries; “Directors” shall mean the Directors of the Company; “member of the Group’s workforce” shall mean any employee or other member of the workforce of the Group; “Shareholders” shall mean the shareholders of the Company; and “Code” shall mean the UK Corporate Governance Code.

References to the “UK Financial Regulator” shall mean, as at the date of approval of these Terms of Reference, the UK Financial Conduct Authority or, at any time thereafter, any successor to the UK Financial Conduct Authority.

1. PURPOSE

- 1.1 The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the adequacy and robustness of the Group’s system of internal controls (including the controls for complying with applicable laws and regulations) and risk management and the adequacy and effectiveness of the internal and external audit processes.
- 1.2 The Committee aims to satisfy itself that the sources of assurance and information it has used to fulfil its role in reviewing and monitoring those matters set out in 1.1 above are reliable and objective, so as in turn to provide appropriate assurance to the Board on the same.
- 1.3 In discharging its functions, the Committee shall have regard to the duty of Committee members, as Directors, to promote the success of the Company for the benefit of its members in accordance with the provisions of Section 172 of the Companies Act 2006 and having regard, as appropriate, to the matters specifically referred to in paragraphs (a) to (f) of that Section.

2 MEMBERSHIP

- 2.1 The Committee is established under the Company’s Articles of Association as a committee of the Board and shall consist of at least three members, being a Chair and two other members.
- 2.2 All members of the Committee shall be independent Non-Executive Directors and appointed by the Board on the recommendation of the Nominations Committee, in consultation with the Committee Chair. The Chairman of the Board shall not be a Committee member. Appointments shall be for a period of up to three years, which may be extended for up to two additional three-year periods, provided members continue to be independent.
- 2.3 At least one member of the Committee shall have recent and relevant financial experience ideally with a professional qualification from one of the professional

- 2.4 accountancy bodies, and otherwise Committee members must have competence relevant to the sector in which the Company operates.

The Committee will, at least annually, review its composition and membership, and make recommendations for change to the Board as it sees fit.

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

- 2.6 Only members of the Committee have the right to attend Committee meetings. However, other Directors, members of management, the Head of Group Internal Audit, the Group Director of Insurance and Risk, the General Counsel and representatives of the external auditors shall regularly attend Committee meetings and other persons may be invited to attend for all or part of any meeting, as and when appropriate.

- 2.7 The Company Secretary, or his or her nominee, shall be 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.

3. **MEETINGS**

- 3.1 Meetings and proceedings of the Committee shall be governed by the provisions of the Company's Articles of Association regulating the meetings and proceedings of the Board.

- 3.2 The Committee shall meet at least three times a year. Meetings shall normally take place before the announcement of the preliminary and half-year results and at such other times as required, and shall be convened by the Company Secretary at the request of the Committee Chair, any member or at the request of the Head of Group Internal Audit or the external audit lead partner.

- 3.3 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in matters relating to the Committees' remit, including the Board Chairman, the Group Chief Executive, the Group Finance Director, the external audit lead partner, the Head of Group Internal Audit, the Group Director of Insurance and Risk and the Group General Counsel.

- 3.4 The quorum for meetings of the Committee shall be any two members present throughout the meeting in person or by telephone or by video conference. 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.

- 3.5 At least once a year, without any Executive Director or management being present, Committee members shall meet with each of the external auditors, the Head of Group Internal Audit and, as necessary, the Group Director of Insurance and Risk and/or the Group General Counsel to discuss any relevant issues, including any arising from the external audit or any internal audits or risk or legal positions.

- 3.6 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be circulated to all Committee members and any other person required to attend no later than five working days in advance of the meeting (except in exceptional or emergency circumstances or as otherwise agreed by Committee members).

4. MINUTES OF MEETINGS

- 4.1 The Company Secretary shall minute all proceedings of, and decisions taken at, all meetings of the Committee, including recording the names of those present and in attendance.

- 4.2 Committee Chair approved draft minutes of Committee meetings shall be circulated promptly to all Committee members. Unless deemed inappropriate to do so by the Committee Chair, they shall also be circulated to other attendees and made available to all other Board Directors.

5 ANNUAL GENERAL MEETING AND SHAREHOLDER RELATIONS

- 5.1 The Committee Chair shall attend the Annual General Meeting to respond to any shareholder questions on the Committee's activities.

- 5.2 The Committee Chair shall seek engagement with shareholders on significant matters related to the Committee's area of responsibility.

6. AUTHORITY

The Committee is authorised by the Board in the performance of its duties to:

- 6.1 conduct any activity within its Terms of Reference;
- 6.2 seek any information it requires from any member of the Group workforce and all members of the Group workforce will be directed to co-operate with any request made by the Committee;
- 6.3 ask any member of the Group workforce or any external adviser to attend meetings of the Committee as and when required;
- 6.4 obtain, at the Company's expense, independent legal, financial or other professional advice on any matter it believes it necessary to do so;
- 6.5 delegate any of its powers to one or more of its members; and
- 6.6 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, including where the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal.

7. DUTIES

The Committee shall, unless required otherwise by regulation, carry out the duties below for the Company and the Group as a whole, as appropriate (and references to the Company below shall be construed accordingly).

7.1 Financial and Narrative Reporting

7.1.1 The Committee shall review and monitor the integrity of the Financial Statements of the Company, and review and report to the Board on significant financial reporting issues, judgements, estimations and uncertainties which they contain having regard to matters communicated to it, and consulted on with it, by the external auditors. 'Financial Statements' shall include the Company's annual and half-yearly reports and any other formal announcements relating to its financial performance.

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

- compliance with applicable financial reporting standards, the relevant provisions of the UK Listing Authority's Listing Rules, Prospectus and Disclosure and Transparency Rules and any other applicable financial and governance reporting requirements;
- the clarity and completeness of disclosure in the Financial Statements, having regard to the context in which the Financial Statements are made;
- whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements.
- the consistency and application of, and any changes to, significant accounting policies adopted in the preparation of the Financial Statements, both on a year-on-year basis and across the Group;
- the extent to which the Financial Statements are affected by any unusual transactions in the year, the methods used to account for them where different approaches are possible, and how they are disclosed;
- significant adjustments resulting from the external audit and any misstatements detected by the external auditor that individually or in aggregate have not been adjusted for and management's explanations as to why they have not been;
- the key considerations and assumptions made in support of the going concern statement (including any material uncertainties about the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the Financial Statements) and the viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period and what scenarios have been applied to stress test those prospects);
- all material information presented with the Financial Statements, such as the strategic report and the corporate governance report relating to audit and risk management matters.

7.1.3 Where the Committee is not satisfied with any aspect of the proposed Financial Statements, it shall report its views to the Board.

7.1.4 The Committee shall review the contents of the Company's Annual Report and Accounts and advise the Board on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

7.1.5 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, Prospectus Rules and Disclosures Guidance and Transparency Rules sourcebook.

7.2 **External Auditor**

The Committee shall:

7.2.1 consider the proposals and make recommendations to the Board, to be put to Shareholders for approval at the AGM, for the appointment, re-appointment or removal of the external auditor;

7.2.2 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required and make recommendations to the Board regarding any such action;

7.2.3 put the external audit services contract out to tender at least once every ten years (and announce its intention to do so in advance of the commencement of the tendering process) and, in respect of such tender, oversee the selection process of a new external auditor ensuring that all tendering firms have access to the necessary information and individuals during the tendering process;

7.2.4 oversee the relationship with the external auditor, including (but not limited to):

7.2.4.1 in consultation with the Group Finance Director, negotiate and agree the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of each annual audit;

7.2.4.2 in consultation with the Group Finance Director, agree the external auditor's remuneration (including fees for both audit and non-audit services) so as to ensure that the level of audit fees is appropriate to enable an effective and high quality audit to be conducted and the level of non-audit fees is appropriate to avoid any compromise to the external auditor's independence and objectivity;

7.2.4.3 assess annually the external auditor's independence and objectivity, including by taking into account any threats to the auditor's independence and the safeguards applied to mitigate those threats and further 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;

7.2.4.4 satisfy itself that there are no relationships (such as family connections or employment, investment, financial or business relationships) between the external auditor and the Company outside the ordinary course of business which could adversely affect the auditor's independence and objectivity;

7.2.4.5 agree with the Board a policy on the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements, and monitor the implementation of this policy;

- 7.2.4.6 monitor the external auditor's compliance with the Ethical Standard and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and audit partner and other related requirements;
- 7.2.4.7 assess annually the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements, and having regard to the qualifications, expertise and resources of the external auditor, which shall include an assessment of the quality of the audit, the handling of key judgments by the auditor and the auditor's response to questions from the Committee and a review of a report from the external auditor on its own internal quality procedures;
- 7.2.4.8 ensure co-ordinated activities exist between the external auditor and the internal audit function; and
- 7.2.4.9 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 the external auditor from the market in that evaluation;
- 7.2.5 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage), including at least once a year without Executive Directors or management being present, to discuss the auditor's remit and any issues arising from the audit and the factors that could affect audit quality;
- 7.2.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement and complies with the requirements of the applicable rules and regulations for external audits;
- 7.2.7 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
 - any major issues which arose during the audit;
 - key accounting judgements and estimates;
 - errors and misstatements identified during the audit; and
 - the auditor's view of the effectiveness of the audit process, including their views of their interactions with senior management and their explanation of how the risks to audit quality were addressed;
- 7.2.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 7.2.9 review the external auditor's report to the Directors and the management letter, including management's response to the auditor's findings and recommendations; and
- 7.2.10 develop and implement a policy on engaging the external auditor to perform non-audit services to avoid any threat to auditor objectivity and independence (including the need for prior approval to any non-audit services, which approval shall be given after consideration of the impact on independence and after taking into account the relevant regulations and ethical guidance on the matter), monitoring the implementation of this policy (including reviewing the level of non-audit fees) on a regular basis and making any recommendations to the Board on any improvement or action required.

7.3 Internal Audit

The Committee shall:

- 7.3.1 approve the appointment or dismissal of the Head of Group Internal Audit;
- 7.3.2 ensure that the Head of Group Internal Audit has direct access to the Board Chairman and to the Committee Chair, and is accountable to the Committee;
- 7.3.3 review and approve the charter of the internal audit function and ensure the function has the necessary skills, 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;
- 7.3.4 review and assess the annual internal audit work plan (which should be aligned to the key risks of the business) and ensure co-ordination between the internal audit function and the external auditors;
- 7.3.5 receive and review reports on the results of the internal auditor's work, including any issues identified;
- 7.3.6 review and monitor management's response to the internal auditor's findings and recommendations;
- 7.3.7 meet with the Head of Group Internal Audit at least once a year without the presence of Executive Directors or management to discuss internal audit's remit and any issues arising from the internal audits carried out;
- 7.3.8 monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system; and
- 7.3.9 consider whether an independent, third party review of processes is appropriate.

7.4 Internal Control and Risk Management

The Committee shall:

- 7.4.1 review the adequacy and effectiveness of the Company's internal financial controls and other internal controls (including operational and compliance controls);
- 7.4.2 consider any necessary actions to deal with any significant failings or weaknesses of the Company's internal control and risk management systems and make recommendations to the Board on the same;
- 7.4.3 review and recommend for approval by the Board the disclosures to be included in the Company's Annual Report and Accounts concerning internal controls and risk management, in particular as to:
 - the main features of the Company's internal control and risk management systems;
 - a description of the Company's principal and emerging risks, the processes in place for identifying the emerging risks, how the impact of the principal and

emerging risks has been assessed and an explanation of how the principal and emerging are being managed or mitigated;

- the assurance reports from management, internal audit, the external auditor and others on the effectiveness of matters related to risk and control; and
- the effectiveness of corrective action taken by management.

7.5 **Anti-Bribery, Anti-Slavery, Fraud and Whistleblowing**

The Committee shall:

7.5.1 review the adequacy and effectiveness of the Company's policies, systems, procedures and controls for the prevention and detection of bribery, slavery and fraud and receive reports on the same and on any instances of non-compliance with the same;

7.5.2 receive and consider reports on the findings of any internal Company investigations into allegations of bribery, slavery, fraud or any other misconduct, review any actions plans created to address those findings and review management's implementation of such action plans;

7.5.3 review the adequacy and security of the Company's arrangements for members of the Group's workforce to raise concerns, in confidence and anonymously (where legally permissible), about suspicions of bribery, slavery, fraud and other wrongdoings, including whether these arrangements allow proportionate and independent investigation of such matters and further review management's implementation of appropriate follow up action;

and the Committee shall report to the Board on the findings of such reviews and of any such investigations and shall make recommendations to the Board on the actions to be taken to address any apparent weaknesses in systems and controls and to redress any proven wrongdoings.

8. **Reporting Responsibilities**

8.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting, on all other activities within its remit and on how the Committee has discharged its duties and responsibilities. This report shall include:

- its assessment of the integrity of the Financial Statements, its views on any areas where is not satisfied with the financial reporting by the Company;
- its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor;
- the length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans;
- its assessment of the effectiveness of the internal audit function;
- its assessment of the effectiveness of the Group's internal controls and risk management systems;
- confirmation that the Committee has carried out a robust assessment of the principal and emerging risks facing the Company, a description of those risks and an explanation as to how they are being managed or mitigated;
- taking into account the Company's current position and principal risks, the Committee's assessment of whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they

fall over the period of their assessment, drawing attention to any qualifications or assumptions as necessary, and of the prospects of the Company, how it has carried out that assessment, over what period and why that period is considered to be appropriate;

- its assessment of the Company's arrangements for members of the Group's Workforce to raise concerns, in confidence and anonymously (where legally permissible), the outcome of investigations into any suspected wrongdoing and its recommendations of remedial action to be taken; and
- any other issues on which the Board has requested the Committee's opinion.

8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

8.3 The Committee Chair (and other Committee members as required) shall make themselves available to meet with investors to ensure that shareholder interests are being properly protected in relation to financial reporting and internal controls.

8.4 The Committee shall prepare a report to Shareholders, for approval by the Board, to be included in the Company's Annual Report. The report shall include:

- a statement about its activities;
- the significant financial issues, judgements and estimations that the Committee considered in relation to the Financial Statements and how these issues have been addressed, having regard to matters communicated to it by the external auditor;
- an explanation of how the Committee has assessed the effectiveness and independence of the external audit process and the approach taken to the appointment or reappointment of the external auditor, the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
- an explanation of how the external auditor independence and objectivity is safeguarded where the auditor provides non-audit services, including a description of the non-audit services policy and how it has been implemented;
- details of the audit and non-audit service fees paid, why each category of work undertaken was concluded to be in the interests of the Company to purchase them from the external auditor;
- an explanation of how the Committee has assessed the principal and emerging risks facing the Company, a description of those risks and an explanation as to how they are being managed or mitigated;
- an explanation of how the performance evaluation of the Committee has been conducted and how the outcome has influenced the composition of the Committee;
- information about the frequency of and attendance by members at Committee meetings held during the year; and
- all other information required to be disclosed in accordance with applicable laws and regulations and recommended to be disclosed in accordance with the Code and the latest guidance on Audit Committees issued by the UK Financial Regulator.

8.5 In preparing the reports referred to in 8.1 and 8.4, 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 the Company's going concern and longer term

viability statement. The report to Shareholders need not repeat information disclosed elsewhere in the Company's Annual Report but could provide cross-references to that information.

8.6 The Committee shall make available to Shareholders these Terms of Reference by placing them on the Company's website.

9. **Other Matters**

The Committee shall:

9.1 at all times during the performance of its duties be mindful of the latest guidance issued by recommendations made by the UK Financial Regulator;

9.2 consider the disclosure relating to the role of the Committee to be included in the Company's Annual Report;

9.3 consider other topics and review other disclosures or documents as determined by the Board from time to time;

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

9.5 be provided with appropriate and timely training, both in the form of an appropriate induction programme for new members and on an ongoing basis for all members;

9.6 ensure compliance with all applicable and relevant laws and regulations including (without limit) applicable financial reporting standards, the Companies Act 2006 (including any regulations made under that Act), the Code, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, and give consideration to corporate governance best practice including (without limit) the provisions of the Code and any relevant guidelines published by institutional investors or shareholder representative bodies;

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

9.8 work and liaise as necessary with all other Board committees;

9.9 on an annual basis, review its membership, evaluate its own performance against its Terms of Reference and best practice, using external evaluators where and when appropriate, to ensure it is operating at maximum effectiveness and report the results of this review to the Board and recommend any changes it considers necessary; and

9.10 on an annual basis, review and, if necessary, update its own Terms of Reference, requesting Board approval for all proposed changes.