

## **TERMS OF REFERENCE FOR THE GMG AUDIT COMMITTEE**

These terms of reference for the Audit Committee have been adopted by the Board of Directors (the "Board") of Guardian Media Group plc (the "Company"). The Audit Committee (the "Committee") shall review and reassess these terms of reference annually and recommend any proposed changes to the Board for approval.

### **Purpose**

The purpose of the Committee is to assist the Board in its oversight of:

- (i) the integrity of the Company's financial statements, including the accounting and financial reporting process of the Company and audit of the Company's financial statements. This oversight is extended to include the financial statements of the Company's parent, The Scott Trust Limited as noted below,
- (ii) the Company's compliance with legal and regulatory requirements,
- (iii) the external auditors' qualifications and independence, and
- (iv) the performance of the Company's outsourced internal audit functions and external auditors.

In fulfilling its purpose, the Committee shall maintain free and open communication with the Company's external auditors, internal auditors, and management.

### **Duties and Responsibilities**

In furtherance of this purpose, the Committee shall have the following duties and responsibilities:

#### General Review

1. To review major issues in respect of the Company regarding accounting principles, policies, practices, and judgments and financial statement presentations, including:
  - (i) any significant changes to the Company's selection or application of accounting principles;
  - (ii) the adequacy and effectiveness of the Company's internal controls;
  - (iii) any special audit steps adopted in light of material control deficiencies; and
  - (iv) the going concern assumption.
2. To review analyses prepared by management or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements of the Company.

### Financial Information Review

3. To discuss with management and the external auditors the external auditors' judgments about the quality and appropriateness of the Company's accounting principles and underlying estimates in its financial statements.
4. To discuss with management and the external auditors the Company's annual audited financial statements together with the results of the external auditors' review prior to Board approval.

### Internal Controls

5. To monitor and review the effectiveness of the Company's outsourced internal audit function. To review the internal audit programme, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.
6. To discuss with management and the external auditors the integrity of the Company's financial reporting processes and internal financial controls, including policies and guidelines with respect to risk assessment and risk management and the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
7. To discuss periodically with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements and the adequacy and effectiveness of the Company's internal financial controls.
8. To discuss periodically with the Company's chief executive and chief financial officer
  - (i) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarise and report financial data,
  - (ii) any significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, and
  - (iii) any fraud involving management or other employees who have a significant role in the Company's internal controls.
9. To review the external auditor's management letter and management's response.
10. To review, on an annual basis, all relationships between the external auditors and the Company.

### External Auditors

11. To make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, including the retention of the external auditors for any significant permissible non-audit engagement. The

Committee may also take into account the opinions of management in its dealings with the external auditors.

12. To develop and implement policy on the engagement of the external auditor to supply non-audit services. Policy statement is attached as Appendix A.
13. To evaluate annually the experience, qualifications, performance and independence of the external auditors, including their lead partners. To ensure the regular rotation of the audit partners, as required by applicable laws, rules and regulations. To consider whether there should be regular rotation of the external auditors. The Committee may take into account the opinions of management in its evaluation of the external auditors. The Committee will present its conclusions regarding the external auditor to the Board.
14. To review with the external auditors any audit problems or difficulties, together with management's responses, including any restrictions on the scope of the external auditors' activities or on access to requested information, and any significant disagreements with management.
15. To discuss the results of the year-end audit of the Company with the external auditors and any other matters required to be communicated to the Committee by the external auditors under generally accepted accounting standards.
16. To discuss with the external auditors before the audit commences, the nature and scope of the audit.
17. To discuss with the external auditors the quality of the Company's financial personnel.

#### Legal Compliance and Complaints

18. To have access to the Company's lawyers to discuss, as required, any legal matters that could have a significant impact on the Company's financial statements or the Company's compliance with applicable laws and regulations, any breaches of fiduciary duties, and inquiries received from regulators or governmental agencies.
19. To review with management and the external auditors any correspondence with regulators or governmental agencies and any published reports and employee complaints concerning financial matters which raise material issues regarding the Company's financial statements or accounting policies.
20. To establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters. A copy of the 'Whistle Blowing Procedures' is attached as Appendix B.
21. To investigate and address any reports of evidence of breaches of fiduciary duties.

### Tax Compliance

22. To approve the framework of responsibilities and policies in regard to tax compliance, and ensure that appropriate people and procedures are in place for managing tax compliance risk.
23. To scrutinise, monitor and review the effectiveness of the Group's tax arrangements and ensure that the risks to tax compliance are properly managed and enable returns to be prepared with an appropriate degree of confidence and compliance with tax legislation.
24. To review and authorise any tax structuring initiatives intended to result in a tax saving in excess of £250,000.

### Other Audit Committee Responsibilities

25. To establish clear guidelines for the hiring of current or former employees of the Company's external auditors.
26. To conduct any investigation appropriate to fulfil its responsibilities with the authority to have direct access to the external auditors as well as anyone in the Company.
27. To keep abreast of new accounting and reporting standards.
28. To consider and determine any proposal by management regarding the termination of the Company's contract with the outsourced internal audit resource.
29. To perform any other activities consistent with these terms of reference, as the Committee or the Board deems necessary or appropriate.

### **The Scott Trust Limited**

On behalf of the Scott Trust Limited (STL) Board, the Audit Committee will undertake the following activities on an annual basis:

- it will review major issues in respect of STL, regarding accounting principles, policies, practices, and judgements and financial statement presentations, including:-
  - (i) any significant changes to STL's selection or application of accounting principles;
  - (ii) the adequacy and effectiveness of STL's internal controls;
  - (iii) any special audit steps adopted in light of material control deficiencies; and
  - (iv) the going concern assumptions.
- it will review analyses prepared by the STL chair, group financial controller or the external auditor setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements of STL.

- it will discuss with the STL chair, group financial controller and the external auditors the external auditors' judgements about the quality and appropriateness of STL's accounting principles and underlying estimates in its financial statements.
- it will discuss with the STL chair, group financial controller and the external auditors, STL's annual audited financial statements together with the results of the external auditors' review prior to STL Board approval.

### **Outside Advisors**

The Committee, acting by majority vote, shall have the authority to retain, at the Company's expense, outside legal, accounting, or other advisors or experts it deems necessary to perform its duties. The Committee shall retain these advisors without seeking Board approval and shall have sole authority to approve related fees and retention terms. The Committee shall receive appropriate funding from the Company for payment of fees to outside advisors engaged by the Committee.

### **Annual Performance Evaluation**

The Committee shall conduct an annual self-performance evaluation. The Committee shall report on its annual self-performance evaluation to the Board and recommend to the Board any improvements to these terms of reference it deems necessary.

### **Membership and Independence Requirements**

The Committee shall consist of no fewer than two (2) independent non-executive directors, as determined by the Board, each of whom shall meet the applicable independence requirements set out in the UK Corporate Governance Code, as determined by the Board, and any other requirements set forth under applicable laws, rules and regulations, subject to any applicable exceptions, exemptions or phase-in periods. In addition the chair may be a member of, but not chair, the Committee provided he or she was considered independent on appointment as chair. All Committee members shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements.

Committee members shall be appointed by the Board. Each prospective Committee member shall carefully evaluate existing time demands before accepting Committee membership. No director may serve as a Committee member if such director serves on the audit committee of more than two (2) other public companies, unless the Board expressly determines that such service would not impair that director's ability to serve on the Committee. The Committee members may be removed, with or without cause, by a majority vote of the Board.

The chief executive, chief financial officer, the group financial controller, and representatives of the external auditors shall normally attend meetings. Other independent directors shall also have the right of attendance.

The company secretary shall be the secretary of the Committee.

## **Chair**

The Committee shall include a Committee chair. The Committee chair shall be appointed by a majority vote of the Board. The chair of the Company may not be the chair of the Committee. The Committee chair shall be entitled to chair all regular sessions of the Committee and add topics to the agenda. In the event of a tied vote, if less than the entire Committee has voted on such matter, then such matter shall be voted on by the entire Committee. If a tie persists after the entire Committee has voted on the matter, then such matter shall be voted on by the independent members of the Board of Directors, with independence being determined in accordance with the UK Corporate Governance Code.

## **Meetings**

The Committee shall meet, in person, at least four (4) times a year, or more frequently as circumstances dictate, and all Committee members shall strive to be present at all Committee meetings. The Committee meetings shall follow a set agenda established by the Committee.

The chair may call a Committee meeting upon due notice of each other Committee member at least forty-eight (48) hours prior to the meeting. Two Committee members, acting in person or by proxy, shall constitute a quorum.

The external auditors may request a meeting if they consider that one is necessary.

The Committee should meet separately, at least once a year, with the external auditors and separately with the outsourced internal auditors without executive Board members present, to discuss any matter that the Committee or any of these groups believes may warrant Committee attention.

## **Reporting Procedures**

The secretary shall prepare and circulate the minutes of the meeting of the Committee to all members of the Board and maintain a minute book containing minutes of meetings signed by the Chair of the meeting.

The Committee shall report its actions and recommendations to the Board after each Committee meeting.

## **Transparency**

The terms of reference of the Committee will be published on the Company website [www.gmgplc.co.uk](http://www.gmgplc.co.uk) and made available on request, from the company secretary.

The Committee will make a statement in the annual report about its activities. The statement will include details on the membership of the Committee, the number of Committee meetings and attendance over the course of the year.

Approved by the Board September 2012.

### **The provision of non-audit services by the external audit firm**

The Board will apply the following policy:

- 1 The auditor should not provide a service if the result is that:
  - the external auditor audits its own firm's work;
  - the external auditor makes management decisions for the company;
  - an inappropriate mutuality of interest is created; or
  - the external auditor is put in the role of advocate for the Company before a court
- 2 The provision of services by the external auditor is prohibited in the following areas:
  - bookkeeping or other services related to the accounting records or financial statements of Guardian Media Group ("the Company") and its subsidiary undertakings (together "the Group");
  - financial information systems design and lead implementation;
  - appraisal or valuation services including fairness opinions or contribution-in-kind reports, where the output is material to the financial accounts;
  - actuarial services where the service will lead to a valuation likely to be included in the Group's financial reporting;
  - management of the internal audit function;
  - management or human resources functions which involve acting as a director, employee or officer of the Group or performing any decision-making, supervisory or ongoing monitoring function;
  - broker, dealer, investment advisor, or investment banking services;
  - legal services, under circumstances in which the person providing the service must be admitted or otherwise qualified to practice before the courts of a jurisdiction;
  - expert services for the purpose of advocating the Group's interests in litigation of regulatory or administrative investigation or proceedings; This does not include a forensic audit of a control breakdown or any accounting system failure;
  - recruitment of senior management or executives.

3 The following types of other non-audit work may be undertaken by the auditors without referral to the Committee subject to an individual project limit, for the services listed below, of £100,000:

- reporting accountants' reports and comfort letters in connection with shareholder circulars, listing particulars or bond issues;
- accountants' reports;
- reporting on financial assistance under the Companies Act;
- audit of carve-out financial statements;
- advice on preparation of financial information and application of GAAP;
- due diligence and related advice;
- audit of completion accounts;
- agreement of price adjustments arising from completion accounts;
- vendor due diligence;
- secondment of staff;
- specialist support to Internal Audit following agreed upon procedures;
- tax compliance and advice;
- transfer pricing studies, preparation of comparable data and documentation;
- training support;
- IT and other control reviews;
- advice on design and implementation of policies, controls and security arrangements, except as prohibited above; and
- assistance with the preparation of non-financial information, or financial information which does not form part of the statutory records, and the subsequent analysis of that information;
- ABC audits;
- preparation and submission of overseas VAT returns;
- assistance with members voluntary liquidation of dormant/non - trading subsidiary companies;
- treasury advice.

- 4 Other types of non-audit work may be undertaken only with prior agreement on a case-by-case basis by the Committee.
- 5 Work that is incremental to the financial limit set out in point 3 above would be subject to approval by the Audit Committee.
- 6 Where the provision of non-audit services by the external auditor should be pre-approved by the Committee, in respect of urgent matters, the Committee will delegate its authority to the Chair of the Committee between meetings. Such pre-approval should be ratified at the next meeting of the Committee.
- 7 Where other third party advisors are appointed to undertake major projects in the areas of internal control or risk management, details of their work and its results should be supplied to the Audit Committee on an ongoing basis. Where reasonable, the Audit Committee should be consulted on their appointment.
- 8 A statement of non-audit work undertaken by the auditors should be presented to the Committee on an annual basis.

### **Whistle Blowing Procedure**

All employees need to feel able to come forward if they have serious concerns about malpractice or wrongdoing at work without the fear of accusations of disloyalty, harassment or victimization. The Public Interest Disclosure Act 1998 specifically provides for the protection of workers who are concerned that malpractice or wrongdoing has occurred; 'workers' includes employees, agency workers, contractors, the self-employed and homeworkers. Provided that the procedural steps in this policy are followed, such workers who make 'qualified disclosures' cannot be victimised or dismissed.

GMG sees Public Disclosure as important and any concerns raised will be taken seriously. Failure to follow this policy may lead to disciplinary action.

#### ***Malpractice***

Some examples of matters regarded as 'malpractice' for the purposes of this policy are:

- Fraud or financial irregularity
- Corruption, bribery or blackmail
- Criminal offences
- Failure to comply with a legal or statutory obligation
- Miscarriage of justice
- Endangering the health and safety of any individual
- Damage to the environment
- Concealment of any of the above

#### ***Procedure***

The Company's primary aim is to prevent workplace malpractice from occurring in the first place. If it happens, the Company's objective is to prevent it recurring. If appropriate, every effort will be made to resolve the situation on an informal basis in the first instance. If this is not possible, the Company will take formal action to investigate and take whatever steps are necessary.

##### *The First Step*

If a worker has a concern about workplace malpractice, he/she should initially contact a Designated Assessor (DAs). GMG will appoint DAs throughout the Company. They will have appropriate standing in the company to command the respect that is needed to fulfil the function and they will receive training.

Alternatively GMG personnel may make an anonymous disclosure on the confidential hotline 0800 915 1571.

If a worker is dissatisfied with the action taken in respect of their concerns, they should raise their concerns in writing to the Group Director of HR, Pensions and Sustainability, who will either deal with the matter or designate an appropriate senior Manager, as appropriate.

##### *Further Steps*

A worker should be aware that their concerns will, as far as possible, be dealt with in confidence. There may be circumstances, however, where it will not be practicable for the

Company to pursue a complaint or to deal with an alleged wrongdoer without the identity of the complainant becoming known and this is something which the worker must recognise when raising their concerns.

The person responsible for hearing a worker's concerns (usually the DA) will normally arrange a meeting with them. The worker may be required to set out their concerns in writing in advance of the meeting. The worker's concerns will then be discussed in full at the meeting and the person hearing the complaint will decide if any further action needs to be taken and, if so, what the appropriate action will be. This may include requiring the worker to attend a further meeting with a higher level of management or asking him/her to provide any further evidence which is considered necessary. The worker will, unless circumstances do not permit it, be told what action the Company has decided to take and must treat any such information with the strictest confidence.

#### *Further Action*

If the concern raised is found to be valid then the Company may decide that one or more of the following steps (which is a non-exhaustive list) is appropriate:

- referral of the matter to the Company's board of directors and/or Audit Committee with a view to an internal investigation being carried out;
- referral of the matter to the police;
- referral of the worker to the grievance procedure.

As stated above, a worker will normally be informed of any decision taken and is required to keep this decision strictly confidential.

#### *External Disclosure*

If, after following the procedural steps set out above, a worker remains genuinely and reasonably dissatisfied with the outcome, he/she may raise their concern, on a confidential basis, with the Company's regulatory authority. The worker must inform the HR Department at least 7 working days before taking such action.

#### ***Protection from Victimisation***

Provided a worker raises any concerns in good faith and not out of malice or with a view to personal gain on their part and has reasonable grounds for believing their concerns to be true and has complied in full with the spirit of the policy and procedural steps set out above, the following will apply:

- so far as possible the worker's identity will not be disclosed at any time by the Company unless necessary for the purposes of the investigations or to comply with a legal obligation;
- the worker will not be subject to any harassment, victimisation or disciplinary action by the Company as a result of raising the concern; so far as possible any supporting evidence relating to the worker's concerns will be kept secure at all times.

#### ***Disclosures outside this Policy***

If at any time it is discovered that a worker has raised a concern maliciously, vexatiously, in bad faith or with a view to personal gain or that he/she has failed to follow the Company's policy for disclosure, set out above, he/she will lose the protection provided to

them under this policy. In addition, he/she may be subject to the Company's disciplinary procedure, including dismissal.