Gooch & Housego PLC
(the "Company" or "G&H")

Terms of Reference for the Audit Committee

(as adopted by the Board on 17 May 2017)

1. Constitution
The Board has established a Committee of the Board known as the Audit Committee.

2. **Remit**
The Board recognises that the function of the Audit Committee is oversight. In fulfilling their responsibilities, as set out hereunder, it is recognised that members of the Audit Committee are not full-time employees of the Company and are not performing the functions of auditors or accountants.

3. Purpose
The main purposes of the Audit Committee are: -

3.1. To help ensure public confidence in the credibility and objectivity of the Company's published financial and non-financial information.
3.2. To monitor and assess the integrity of the half-year and annual financial statements of the Company.
3.3. To assist the Board in meeting its responsibilities in respect of statutory or other financial reporting, in respect of its review of the effectiveness of the Company's internal controls and risk management systems, which include financial, operational and compliance controls.
3.4. To strengthen the independent position of the Company's external auditors by providing a direct channel of communication between the external auditors and the Non-executive Directors.

4. Membership

4.1. The Audit Committee shall be appointed by the Board and shall consist of not less than three members, all of whom shall be independent non-executive Directors of the Company. The Chairman of the Board shall not be appointed a member of the Audit Committee but may be invited by the Audit Committee to attend and speak at meetings. The Audit Committee as a whole will have competence relevant to the sector in which the Company operates and the Board shall satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience.
4.2. A quorum shall be two members.
4.3. The Chairman of the Audit Committee shall be appointed by the Board. In the absence of the Audit Committee Chairman, the remaining members present shall elect one of their number present to chair the meeting.

4.4. Appointments to the Audit Committee shall be for a period of up to three years (subject to the election and re-election provisions in the Company's constitution and in the UK Corporate Governance Code), which may be extended for up to two further periods of up to three years, provided the Director concerned still satisfies the criteria for membership of the Committee.

4.5. The Chairman and other members of the Audit Committee shall be named in the Company's annual report.

5. Attendance at Meetings

5.1. Members of the Audit Committee shall attend Audit Committee meetings. Other persons may attend at the sole invitation of the Audit Committee. The Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller and a representative of the external auditor shall normally be invited to attend meetings. Other Board members, senior managers, and members of the Finance Function may also be invited to attend. At least once a year, the Audit Committee shall meet with the external auditor without Executive Directors or Managers present. The Secretary of the Audit Committee may attend this meeting at the discretion of the Chairman of the Audit Committee.

5.2. Meetings may be held by telephone.

5.3. The Company Secretary or their nominee shall be the Secretary of the Audit Committee and will ensure that the Audit Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

6. Frequency and notice of Meetings

6.1. A minimum of three meetings shall be held each year.

6.2. Meetings of the Audit Committee shall be called by the Secretary of the Audit Committee at the request of the Audit Committee chairman. The external auditor, the Company Secretary or any member of the Audit Committee may also request a meeting if they consider that one is necessary.

6.3. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Audit Committee, any other person required to attend and all other non-executive directors, no later than five days before the date of the meeting. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate, at the same time.

7. Authority

7.1. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires through the relevant managerial line of responsibility from any employee and all employees are required to co-operate with any request made on the Audit Committee's behalf. The Audit Committee reserves the right for the external auditor to validate the accuracy and completeness of any internal data provided to it.

7.2. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice at the cost of the Company in accordance with the Company's guidelines for seeking independent professional advice and to secure the attendance at Audit Committee meetings of other parties with relevant experience and expertise if it considers it necessary.

7.3. The Chairman of the Audit Committee shall be available to answer questions about the Audit Committee's activities and responsibilities at the Annual General Meeting of the Company and to deal with any questions relating to the resignation or dismissal of the external auditor.

7.4. The Audit Committee has the right to publish in the Company's annual report details of any issues that cannot be resolved between it and the Board.

8. Role and Responsibilities

The role and responsibilities of the Audit Committee shall be: -

8.1. To review and consider, with management and/or the external auditor, as appropriate, the effectiveness of the Company's internal financial controls.

8.2. To monitor the process of risk management on behalf of the Board, including financial and compliance controls, and risk management systems.

8.3. To review and recommend for Board approval the statements to be included in the annual report concerning internal controls on an annual basis.

8.4. To assist in the monitoring of the process of risk management and to support the Board's deliberations.

8.5. To monitor and assess the integrity of the half-year and annual financial statements of the Company and any other formal announcements relating to the Company's financial performance, before their submission to the Board, where appropriate, focusing particularly on: -

8.5.1. Any changes in accounting policies and practices;

8.5.2. Significant financial reporting judgments;

8.5.3. Significant adjustments arising from the audit;

8.5.4. The "going concern" assumption, the identification of any material uncertainties to the Company's ability to continue to adopt the going concern basis of accounting for at least twelve months from the date of approval of the financial statements;

8.5.5. Compliance with applicable accounting and reporting standards and the making of appropriate estimates and judgements, taking into account the views of the external auditor;

8.5.6. Compliance with UK Listing Authority (UKLA) and other legal and regulatory requirements;

8.5.7. The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made, and where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

8.6. To establish and review procedures for detecting fraud, and systems and controls for the prevention of bribery, and to ensure that a thorough review is carried out of all alleged instances of fraud reported to the Audit Committee.

8.7. To consider 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). Where requested by the Board, the Audit Committee should 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.

8.8. To make recommendations to the Board, to be put to shareholders for approval in general meeting, in relation to the appointment, re-appointment or removal of the Company's external auditor. If the Board does not accept such recommendations, the Committee shall prepare a statement explaining the recommendations for inclusion in the Company's annual report and/or other papers recommending appointment or re-appointment of the external auditor.

8.9. To initiate and supervise the competitive tender of the audit services contract in line with regulatory and legislative retendering requirements, and to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. In respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

8.10. To negotiate and agree the statutory audit fee and the scope of the statutory audit, including ensuring that appropriate plans are in place for audit at the start of each annual audit cycle, considering the auditor's overall work plan, including planned levels of materiality and ensuring that the proposed resources to execute the audit plan appear consistent with the scope of audit engagement, having regard also to the seniority, expertise and experience of the audit team.

8.11. To review, with the external auditor, the findings of their work, including discussing any major issues that arose during the course of the audit, key accounting and audit judgements and the levels of errors identified during the audit. The Audit Committee should also review the cost effectiveness of the external audit, alongside reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.

8.12. To develop and recommend to the Board the Company's policies in relation to the employment of former employees of the Company's external auditor and the provision of non-audit services by the external auditor and consider the possible impact on the external auditor's independence before awarding non-audit services, taking into account any relevant ethical guidance on the matter.

8.13. To approve in advance the external auditor's terms of engagement and all auditing services and any permitted non-audit services (including the fees and terms thereof) provided by the Company's external auditor taking into account relevant ethical guidance regarding the provision of non-audit services by the Company's external auditor and the Company's policy on the same.

8.14. To agree the appointment of the Audit Engagement Partner.

8.15. To report to the Board any matters with respect to the performance of the external auditor where the Committee considers action or improvements are needed or desirable, and make appropriate recommendations as to the steps that should be taken to effect any such action or improvement.

8.16. If an external auditor resigns, to investigate the issues leading to this and decide whether any action is required.

8.17. To establish and review procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, including confidential communications on such matters from employees of the Company, ensuring that procedures are in place to refer all such matters to the Audit Committee for proportionate investigation and appropriate follow-up action.

8.18. To monitor and review the role and effectiveness of the external auditor.

8.19. To review the audit representation letter before signature, and external auditor's management letter and management's response thereto, resolve any disagreements between the external auditor and management regarding financial reporting, and, if appropriate, recommend its signature to the Board.

8.20. To receive reports from the external auditor.

8.21. To periodically review, in conjunction with the external auditor, the appropriateness of the company's approach to internal audit.

8.22. To meet with the Chief Executive Officer and Chief Financial Officer to discuss any memoranda prepared by the external auditor for the Audit Committee.
8.23. To discuss with the Chief Executive Officer and Chief Financial Officer the procedures followed by the Chief Executive Officer and Chief Financial Officer to enable the Board to provide any required regulatory certifications.
8.24. To consider the major findings of internal investigations commissioned by the Audit Committee and management's response thereto.
8.25. To consider any other matter specifically referred to the Audit Committee by the Board.

9. Reporting Procedures

9.1. The Audit Committee Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Audit Committee. Once approved, minutes should be circulated to all members of the Board and the Secretary of the Board unless it would be inappropriate to do so in the opinion of the Chairman of the Audit Committee.
9.2. The Chairman of the Audit Committee will report to the Board on such matters as he considers appropriate.
9.3. A report on the activities of the Audit Committee shall be included in the Company's annual report. Such a report should describe how the Audit Committee has discharged its responsibilities and should include: -
  9.3.1. a summary of the role of the Audit Committee;
  9.3.2. the names of all Audit Committee members during the period;
  9.3.3. the number of Audit Committee meetings;
  9.3.4. the significant issues that the Audit 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;
  9.3.5. an explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  9.3.6. where the external audit has provided non-audit services, how auditor objectivity and independence has been safeguarded; and
  9.3.7. any other issue on which the Board has requested the Audit Committee's opinion.

10. Other matters

The Audit Committee shall: -

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

10.2. 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;

10.3. Give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.

10.4. Periodically review its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the board for approval.