

SPIRE HEALTHCARE GROUP PLC (THE COMPANY)

AUDIT AND RISK COMMITTEE - TERMS OF REFERENCE

adopted by the Board on 3 July 2014 and amended on 15 December 2016

1. BACKGROUND

1.1 The board of directors of the Company (the *Board*) has resolved to establish an audit and risk committee (the *Committee*). These terms of reference replace any previous terms of reference for any audit and risk committee of the Board.

1.2 The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal financial controls of the Company and its subsidiaries (collectively, the *Group*), for reviewing the Group's internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the Group and for reporting its findings and recommendations to the Board.

2. THE COMMITTEE'S DUTIES

The Committee performs the following duties for the Company, its major subsidiary undertakings and the Group as a whole, as appropriate.

Financial reporting

2.1 To monitor the integrity of the Company's financial statements, including its annual and half-yearly reports, interim management statements, any preliminary results announcements and any other formal announcements relating to its financial performance, and to review and report to the Board on significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the external auditor).

2.2 To review significant financial returns to regulators and any significant financial information contained in other documents.

2.3 To review and challenge where necessary:

- (a) the consistency of, and any changes to, significant accounting and treasury policies on a year on year basis, across the Company and the Group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the strategic report, the corporate governance statement (insofar as it relates to the audit and risk management) and the internal control and risk management statement.

2.4 To assess the effectiveness of the Group's financial reporting procedures.

2.5 Where the Committee is not satisfied with any aspect of the Group's financial reporting, to report its views to the Board.

2.6 Where requested by the Board, to 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.

External audit

2.7 To consider and make recommendations to the Board on the appointment, re-appointment, resignation or removal of the Group's external auditor, to be put to shareholders for approval at the annual general meeting.

2.8 To manage any audit tender process and recommend to the Board the timing of a tender process, ensuring one is undertaken at least every ten years.

2.9 To oversee the selection process for any new external auditor and, if an external auditor resigns, investigate the issues leading to this and decide whether any action is required.

2.10 To ensure that key partners within the appointed external auditor are rotated from time to time in compliance with relevant ethical and professional guidance.

2.11 To oversee the relationship with the external auditor, including but not limited to:

- (a) approving the external auditor's remuneration, including fees for audit and non-audit services and ensuring that the fees are appropriate to enable an effective and high quality audit to be conducted;
- (b) approving the external auditor's terms of engagement, including any engagement letter at the start of each audit and the scope of the audit;
- (c) monitoring and reviewing the external auditor's independence and objectivity, and the effectiveness of the audit process, taking into account relevant legal, professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Group other than in the ordinary course of business which adversely affect their independence and objectivity;
- (e) agreeing with the Board a policy on the employment of former employees of the external auditor, taking account of relevant ethical standards, and monitoring the application of this policy;
- (f) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the fees paid by the Group compared to the overall fee income of the firm, office and partner and other related regulatory requirements;
- (g) assessing annually the external auditor's qualifications, expertise and resources and the effectiveness of the audit process, taking into account relevant professional and

regulatory requirements, which must include a report from the external auditor on their own internal quality control procedures;

- (h) seeking to ensure co-ordination between the external auditor and the internal audit function, when there is one; and
- (i) evaluating the risks to the quality and effectiveness of the financial reporting process, including the risk of the withdrawal of the Company's external auditor from the market.

2.12 To 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 to meet the external auditor at least once a year without management present to discuss the auditor's remit and any issues arising from the audit.

2.13 To review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

2.14 To review the findings of the audit with the external auditor, including but not limited to:

- (a) any significant issues which arose during the audit;
- (b) key accounting and audit judgements;
- (c) the level of errors identified during the audit;
- (d) the effectiveness of the audit process;
- (e) the basis for the going concern assumption; and
- (f) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.

2.15 To discuss any difficulties, reservations or other matters arising from the external audit (in the absence of management where necessary).

2.16 To review any representation letters requested by the external auditor before they are signed by management.

2.17 To review the management letter and management's response to the external auditor's findings and recommendations.

2.18 To consider communications from the external auditor on statutory and regulatory audit planning and findings and on material weaknesses in accounting and internal control systems that come to the auditor's attention.

2.19 To develop, implement and keep under review a policy on the engagement of the external auditor to supply non-audit services by (including any non-audit services for which the use of the external auditor is pre-approved, from which the external auditor is excluded and for which the specific approval of the Committee is required), taking into account relevant ethical guidance on the matter, and report to the Board, identifying any matters on

which it considers action or improvement is needed and recommending what steps should be taken.

Internal controls and risk management systems

2.20 To oversee the risk framework across the Group and manage all significant risks, including, but not limited to, financial reporting risks, internal financial controls, fraud risks, environmental risks, engineering risks and clinical risks (including those that relate to patient safety). Under its terms of reference, the Clinical Governance and Safety Committee will focus on clinical risks and will report all significant matters to the Audit and Risk Committee as required.

2.21 To gain assurance that all significant risks to which the Group is exposed are identified, assessed and managed within a well-defined control environment;

2.22 To keep under review the adequacy and effectiveness of the Group's internal financial controls, and internal control and risk management systems.

2.23 To keep under review the policies and overall process for identifying and assessing business risks and managing their impact on the Company and the Group.

2.24 To receive and review reports from the chair of the Clinical Governance and Safety Committee on matters of internal control and risk management and any significant clinical risk considerations which it has identified and is required to report upon to the Committee under its terms of reference.

2.25 To receive and review regular assurance reports from management, internal audit, external audit and others on matters related to risk and control and review the timeliness of, and reports on, the effectiveness of corrective action taken by management.

2.26 To review and approve the statements to be made in the annual report about internal controls and risk management systems.

2.27 To advise the Board on the Company's overall risk appetite, tolerance and strategy.

2.28 To oversee and advise the Board on the current risk exposures of the Company and the Group and future risk strategy.

2.29 To agree the annual internal audit programme and the use of internal resource or external consultants to complete any agreed programme.

2.30 To review the terms of major classes of insurance policies, as well as the levels of insurance cover of the Group.

2.31 To advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company and the Group, and taking independent external advice where appropriate and available.

2.32 To consider the remit of the risk management function and satisfy itself that management:

- (a) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
- (b) has adequate independence and is free from management and other restrictions.

2.33 To approve recommendations made by management for the appointment and/or removal of the chief risk officer (*CRO*), review promptly all reports from the CRO, review and monitor management's responsiveness to the findings and recommendations of the CRO, and ensure that the CRO is given unfettered direct access to the chair of the Board and to the Committee.

Whistleblowing, fraud, bribery and other compliance

2.34 To review the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters, with the aim of ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

2.35 To review the Group's policies and procedures for preventing and detecting fraud, its systems and controls for preventing bribery, its code of corporate conduct/business ethics and its policies for ensuring that the Group complies with relevant regulatory and legal requirements. The Committee should review the fraud and bribery registers on a regular basis, receive reports and consider appropriate action.

Other

2.36 To review other disclosures and documents as required by the Board.

3. COMPOSITION

3.1 The Committee must have at least three members. Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee in consultation with the chair of the Committee.

3.2 All members of the Committee must be independent non-executive directors. The chair of the Board may not be a member of the Committee. If the Board decides that a member of the Committee is no longer independent, that member will cease to be a member of the Committee.

3.3 At least one member of the Committee must have been determined by the Board to have recent and relevant financial experience.

3.4 Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others to attend all or part of any meeting if it thinks it is appropriate or necessary or pursuant to the terms of any agreement with shareholders. The external auditor and the chief financial officer must be invited to attend meetings of the Committee on a regular basis.

3.5 Appointments to the Committee are for a period of up to three years, extendable for two further three-year periods, provided the director still meets the criteria for membership of the Committee.

3.6 The Board appoints the chair of the Committee, who must be an independent non-executive director. In the absence of the chair of the Committee and/or an appointed deputy, the remaining members present may elect one of their number to chair the meeting.

4. QUORUM

4.1 The quorum necessary for the transaction of business is two members.

4.2 A duly convened meeting of the Committee at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. MEETING ADMINISTRATION

5.1 The Committee shall meet as often as it deems necessary but in any case at least three times a year, at appropriate times in the financial reporting and audit cycle, at such times and places determined by the chair of the Committee. Where possible a sufficient interval should be allowed between Committee meetings and main Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate. The Committee must approve the annual calendar of its meetings. Additional meetings may be called by the chair of the Committee. The Committee may hold meetings by telephone or using any other method of electronic communication, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the chair.

5.2 Meetings of the Committee are called by the secretary of the Committee at the request of any of its members or the external auditor.

5.3 Unless otherwise agreed by all Committee members, notice of each meeting confirming the venue, time and date (and dial-in details if required) of the meeting must be sent, with an agenda of the items to be discussed and any supporting papers, to each member of the Committee, any other person required to attend the meeting and all other non-executive directors, as soon as practicable, and in any event no later than three working days before the date of the meeting.

5.4 The Committee should, at least annually, meet the external auditors without management, to discuss matters relating to its remit and any issues arising from the audit.

5.5 Outside the formal meeting programme, the chair of the Committee must maintain a dialogue with key individuals involved in the Company's governance, including the chair of the Board, the chief executive officer (or equivalent), the chief financial officer, the external audit lead partner and the head of internal audit, if appointed.

6. SECRETARY

6.1 The Group Company Secretary or such person as the Group Company Secretary nominates shall act as the secretary of the Committee.

6.2 The secretary must ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

6.3 The secretary must minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

6.4 Draft minutes of Committee meetings must be sent promptly to all members of the Committee. Approved minutes will be circulated to all members of the Board in a timely manner, unless the chair of the Committee thinks it is inappropriate to do so.

7. SELF-EVALUATION

The Committee must review its own performance, composition and terms of reference at least once a year and recommend to the Board any changes it considers necessary or desirable.

8. REPORTING RESPONSIBILITIES

8.1 After each Committee meeting, the chair must report formally to the Board on the Committee's proceedings and on how it has discharged its duties and responsibilities.

8.2 This report must include:

- (a) the significant issues that it considered and how these were addressed;
- (b) where applicable, its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- (c) any other issue on which the Board has asked for the Committee's opinion.

8.3 The Committee may make such recommendations to the Board it deems appropriate on any area within its remit where action or improvement is desirable.

8.4 The chair of the Committee must attend the Company's annual general meeting and respond to any shareholder questions on matters within the Committee's area of responsibility, as directed by the chair of the annual general meeting.

8.5 The Committee must compile a report to shareholders on its activities to be included in the Company's annual report. The report must explain:

- (a) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- (b) how the Committee has addressed the effectiveness of the external audit process;
- (c) the approach taken to the appointment or reappointment of the external auditor
- (d) the length of tenure of the current external auditor and when a tender was last conducted; and
- (e) if the external auditor provides non-audit services, how auditor objectivity and independence are safeguarded.

8.6 In compiling the reports referred to in 8.1 and 8.5, the Committee must exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but must 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-references to that information.

9. OTHER MATTERS

9.1 The Committee must:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required on all Committee matters;
- (b) be given appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules, the Financial Reporting Council's Guidance on Audit Committees and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the external auditor and the internal audit function;
- (e) oversee any investigation of activities which are within its terms of reference; and
- (f) work and liaise as necessary with all other Board committees.

10. AUTHORITY

10.1 The Board authorises the Committee to:

- (a) undertake any activity within its terms of reference;
- (b) seek any information from any Group employee or contractor that it requires to perform its duties;
- (c) obtain external legal or other professional advice on any matter within its terms of reference at the Company's expense, and to invite persons giving such advice to attend Committee meetings;
- (d) call any Group employee or contractor to be questioned at a Committee meeting, as and when required;
- (e) publish in the Company's annual report details of any issues that have not been resolved between the Committee and the Board; and
- (f) delegate any of its powers to one or more of its members or the secretary.