

Terms of reference for the Audit Committee of the Board of Directors of

Dalata Hotel Group p.l.c. (the "Company")

Board Approval: [] 2014

Effective Date: The date on which the ordinary share capital of the Company is admitted to trading on the Enterprise Securities Market (ESM) of the Irish Stock Exchange and the Alternative Investment Market (AIM) of the London Stock Exchange p.l.c.

There shall be established a committee of the board, duly constituted in accordance with the main provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex thereto (together the "Governance Code"), the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Sized Quoted Companies and the Company's articles of association, to be known as the Audit committee.

References to 'the committee' are to 'the Audit committee'.

References to 'the board' are to 'the board of directors'.

1. MEMBERSHIP

- 1.1. Members of the committee shall be appointed by the board on the recommendation of the nomination committee in consultation with the chairman of the audit committee. The committee shall be made up of at least two of the independent non-executive directors of the board for the time being.
- 1.2. All members of the committee shall be independent non-executive directors¹ at least one of whom shall have recent and relevant financial experience and, ideally, a professional qualification from one of the professional accountancy bodies. The chairman of the board shall not be the chairman of the committee.²
- 1.3. Only members of the committee have the right to attend committee meetings. However, other directors and representatives from the service providers to the Company may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4. The external auditors will be invited to attend meetings of the committee on a regular basis.
- 1.5. Appointments to the committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to meet the criteria for membership of the committee.
- 1.6. The board shall appoint the committee chairman who shall be an independent non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. SECRETARY

The Company secretary or its nominee shall act as 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. QUORUM

¹An independent non-executive director is defined in the Governance Code provision A.3.1

²Except on appointment, the Chairman of the Company is not considered to meet the test of independence. Code provision A.3.1

- 3.1. The quorum necessary for the transaction of business shall be two members. 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.

4. FREQUENCY OF MEETINGS

- 4.1. The committee shall meet at least three times a year at appropriate times in the reporting and audit cycle of the Company and otherwise as required.
- 4.2. Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including the board chairman.

5. NOTICE OF MEETINGS

- 5.1. Meetings of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of external auditors if they consider it necessary.
- 5.2. 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 committee, any other person required to attend and to all other non-executive directors, if any, no later than five working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees as appropriate, at the same time.

6. MINUTES OF MEETINGS

- 6.1. The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3. Draft minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all other members of the board, if any, unless it would be inappropriate to do so in the opinion of the committee chairman.

7. ANNUAL GENERAL MEETING

The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities.³

8. DUTIES

The committee should carry out the duties below in respect of the Company and, where appropriate, reference to the Company includes its subsidiaries and the group as a whole:-

8.1. Financial Reporting

- 8.1.1. The committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and interim management statements and any other formal announcements relating to the Company's financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain. The committee shall also review and report to the board on summary financial

³Governance Code provision E. 2.3

statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

8.1.2. In particular, the committee shall review and challenge where necessary:

- (1) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and, if applicable, its subsidiaries;
- (2) the methods used to account for significant or unusual transactions where different approaches are possible;
- (3) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (4) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (5) all material information presented with the financial statements, such as the business review the operating and financial review and the corporate governance statement (insofar as it relates to the audit and to risk management).

8.1.3. The committee shall review the annual and interim financial statements.

8.1.4. 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.

8.2. **Narrative Reporting**

Where requested by the board, the 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.⁴

8.3. **Internal Controls and Risk Management Systems**

The committee shall:

- 8.3.1. keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;⁵ and
- 8.3.2. review and approve the statements to be included in the annual report concerning internal controls and risk management;⁶
- 8.3.3. maintain and consider at meetings of the committee a risk register to include an assessment of all risks facing the Company, including, but not limited to, economic, political, financial and operational (including those items listed at paragraph 8.7 below) risk, the relevant level of risk anticipated (high, medium, low) and the effectiveness of existing or proposed mitigating or corrective actions or controls in respect of key risk areas (the **Risk Register**);

⁴Governance Code provision C.3.4

⁵Governance Code provision C.3.2

- 8.3.4. consider and agree upon mitigating or corrective actions to be undertaken in respect of key risks, including where existing actions or controls are considered inadequate relative to the relevant risk;
- 8.3.5. regularly update the Risk Register in order to:
- (1) identify new risks and any existing or proposed mitigating or corrective actions or controls in respect of key risk areas;
 - (2) reflect, in respect of existing risks, any corrective action undertaken in the intervening period between committee meetings and the results of such action;
 - (3) forecast any changes to the Company's risk profile.

The board retains responsibility for the review of the effectiveness of the Company's systems of internal controls and risk management and must form its own opinion despite aspects of that review being delegated to the committee.

8.4. **Compliance, Whistleblowing and Fraud**

The committee shall:

- 8.4.1. review the adequacy and security of the Company's arrangements for its employees and contractors, if any, to raise concerns in confidence about possible wrongdoing in financial reporting or other matters, and ensure that these arrangements allow proportional and independent investigation of such matters and appropriate follow-up action;
- 8.4.2. review the Company's procedures for the detection of fraud;
- 8.4.3. establish procedures to comply with applicable legislation and communicate same to employees of the Company;
- 8.4.4. review regular reports from the chief financial officer of the Company (**CFO**) who shall monitor the activities of the Company in respect of the adequacy and effectiveness of the Company's:
- (1) anti-money laundering systems and controls; and
 - (2) compliance function; and
- 8.4.5. review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.5. **Internal Audit**

The committee shall:

- 8.5.1. monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.5.2. approve the appointment and removal of the head of the internal audit function;
- 8.5.3. consider and approve the remit of the internal audit function and ensure it has necessary resources (to include approval of the appointment or removal by the CFO of employee(s) charged with carrying out the internal audit function (**Internal Audit Employee(s)**)) and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;

8.5.4. ensure that:

- (1) the CFO has direct access to the chairman of the board of directors and the chairman of the Committee and is accountable to the committee in respect of the internal audit function; and
- (2) the Internal Audit Employee(s) have direct access to the chairman of the board of directors and the chairman of the committee in the event that the committee, the chairman of the board of directors or the chairman of the committee have queries in respect of the internal audit function which, in their view, would be more appropriately addressed to the Internal Audit Employee(s);

8.5.5. ensure the internal auditor has direct access to the chairman of the board of directors and the chairman of the Committee and is accountable to the Committee;

8.5.6. review and assess the annual internal audit plan;

8.5.7. review periodically reports on the results from the internal auditor's work;

8.5.8. review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and

8.5.9. meet the head of internal audit at least once a year, without management being present.

8.6. External Audit

The committee shall:

8.6.1. consider and make recommendations to the board, to be put to shareholders for approval at the annual general meeting of the Company, in relation to the appointment, re-appointment and removal of the Company's external auditor. If the board does not accept the committee's recommendation on the appointment, re-appointment and removal of external auditors, the committee shall prepare a statement explaining the committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the board's reasons for taking a different position. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

8.6.2. oversee the relationship with the external auditor including (but not limited to):

- (1) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
- (2) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (3) assessing annually their performance, independence and objectivity and the effectiveness of the audit process taking into account relevant Irish and UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (4) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and loyalty;

- (5) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (6) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
 - (7) monitoring the adequacy of the internal control procedures relating to the Company;
 - (8) seeking to ensure co-ordination with the activities of the internal audit function; and
 - (9) evaluating 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 auditor from the market in that evaluation.
- 8.6.3. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year to discuss their remit and any issues arising from the audit;
- 8.6.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.6.5. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:-
- (1) a discussion of any major issues which arose during the audit;
 - (2) any accounting and audit judgements;
 - (3) levels of errors identified during the audit; and
 - (4) the effectiveness of the audit process.
- 8.6.6. review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.7. review the management letter and management's response to the auditor's findings and recommendations; and
- 8.6.8. develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter and to report to the board identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

8.7. **Health, Safety and Operational Risk**

The committee shall:

- 8.7.1. recommend to the board a health and safety policy for adoption by it and, as the committee deems necessary, review and recommend options that may enhance the health and safety policies, standards and processes that operate within the Company;
- 8.7.2. verify that procedures are in place to comply with applicable health and safety legislation;
- 8.7.3. monitor the Company's compliance with its health and safety obligations and review progress on improving safety performance and safety culture;

- 8.7.4. consider health and safety issues that may have strategic, business and reputational implications for the Company and/or group and recommend appropriate measure, responses and targets;
- 8.7.5. review progress on improving the occupational health of staff and independent contractors; and
- 8.7.6. where it deems it appropriate to do so, appoint an independent auditor or auditors to review performance with regard to health and safety matters and review any strategies and action plans developed by management in response to issues raised.

9. REPORTING RESPONSIBILITIES

- 9.1. 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 on how it has discharged its responsibilities.
- 9.2. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3. The committee shall compile a report on its activities to be included in the Company's annual report. The report should include: an explanation of how the committee has addressed the effectiveness of the external audit process; 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; if an external auditor provides non-audit services, an explanation of how the auditor's objectivity and independence are safeguarded; the approach taken to the appointment or reappointment of the external auditor and information on the length of tenure of the current audit firm and when a tender was last conducted; and all other information requirements set out in the Governance Code. The annual report shall also list the names of all members of the committee, the number of committee meetings and attendance by each member.
- 9.4. In compiling the reports referred to in 9.1 and 9.3, 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 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.

10. OTHER MATTERS

The committee shall

- 10.1. have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;⁷
- 10.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;⁸
- 10.3. be responsible for co-ordination of the external auditors;
- 10.4. oversee any investigation of activities which are within its terms of reference;

⁷Governance Code provision B.5.2

⁸Governance Code provision B.4.1

- 10.5. at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval;⁹
- 10.6. work and liaise as necessary with all other board committees;
- 10.7. give due consideration to all applicable laws and regulations as appropriate; and
- 10.8. make available its terms of reference, including its role and the authority delegated to it by the board.

11. VOTING ARRANGEMENTS

- 11.1. Each member of the committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the committee.
- 11.2. If a matter that is considered by the committee is one where a member of the committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 11.3. Save where he has a personal interest, the committee chairman will have a casting vote.

12. AUTHORITY

The committee is authorised to:

- 12.1. seek any information it requires from any of the service providers of the Company in order to perform its duties;
- 12.2. obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3. call any service provider of the Company to be questioned at a meeting of the committee as and when required;
- 12.4. publish in the Company's annual report details of any issues that cannot be resolved between the committee and the board;
- 12.5. do all other matters as it believes appropriate in respect of the conduct of its duties, including, without limitation, the matters referred to herein; and
- 12.6. delegate any of its powers to one or more of its members or the secretary.

⁹Governance Code principal B.6