

Fairpoint Group plc

Audit Committee Terms of Reference

1. Constitution

The Audit Committee ("the Committee") is a standing committee of Fairpoint Group plc ("the Board"). The terms of reference were approved by the Committee and by the Board on 30th October 2014.

2. Membership

The membership of the Committee shall be appointed by the Board from amongst the independent non-executive directors of the company and shall consist of a minimum of two members. At least one member of the Committee shall have recent and relevant financial experience. The chairman of the board shall not be a member of the Committee.

The duties and responsibilities of a member of the Committee are in addition to those set out for a member of the Board.

The chairman of the Committee shall be appointed by the Board.

The Group Head of Compliance or, in the absence of a Group Head of Compliance the Heads of Compliance for each regulated area, Head(s) of Risk (or equivalent) and representatives of the external auditors shall normally attend meetings at the invitation of the Committee. Board members not on the Committee may be asked to attend at the request of the Committee and may seek approval to attend from the chairman. However, the Committee shall have the right to meet without other directors present if it so decides.

At least once a year, the Committee shall meet with the Heads of Compliance, the Heads of Risk and the external auditors respectively without the presence of executive management to discuss any matters that either the Committee or these three believe should be discussed privately.

3. Secretary

The company secretary or his or her nominee shall act as the secretary of the Committee.

4. Quorum

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.

5. Frequency of meetings

Meetings shall be held at least three times yearly or more frequently as circumstances require and should coincide with key dates in the company's financial reporting cycle.

6. Notice of meetings

The secretary shall convene a meeting at the request of any Committee member. The external auditors and head of internal audit may also request a meeting if they consider that one is necessary.

Unless otherwise agreed, the notice of the meeting, agenda of items to be discussed and supporting papers shall be sent to committee members and other attendees no later than five working days before the date of the meeting.

7. Minutes of meetings

Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and shall be submitted for formal approval at the next meeting of the Committee. Minutes shall be circulated to all other members of the Board unless it would be inappropriate to do so. The minutes shall also be made available to the external auditors.

8. Annual General Meeting

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

9. Duties

The duties of the committee shall be to: -

General

- 9.1 Ensure that there is an open avenue of communication between compliance, the head of risk, the external auditors and the board of directors.
- 9.2 Review annually and, if necessary propose for formal board adoption, amendments to the committee's terms of reference.
- 9.3 Consider, in consultation with the external auditors and the head of risk the audit plans and scope of the external auditors and internal reviews conducted by the head of risk, ensuring that co-ordination of audit effort is maximised.

Financial Statements

- 9.4 Review and monitor with management and the external auditors the statutory audit process including:
- The annual group report and accounts and half yearly financial report and any formal announcements relating to the Company's financial performance.
 - Key accounting policies and any changes to them.
 - Decisions requiring a significant element of judgment.
 - The going concern assumption.
 - Compliance with accounting standards.
 - Compliance with legal and regulatory requirements.
 - Any gains or losses which are exceptional in size or character.
 - External auditor's reports on the audit, including adjustments identified during the audit.
 - Any significant changes which have been required to the external auditors' audit plan.
 - Any significant difficulties or disputes with management encountered during the course of the audit.
 - Review any representation letter(s) requested by the external auditor before they are signed by management
 - External auditors' reports to industry regulators
 - Clarity of disclosures
 - Compliance with stock exchange and other regulatory and legal requirements

Internal Control and risk management

- 9.5 Enquire of management, the head of risk management, the head of compliance (where appropriate) and the external auditors about significant risks or exposures and evaluate the steps taken to minimise such risk to the company.
- 9.6 Consider and review with management and the head of risk significant internal review findings and recommendations during the year and management's responses thereto.
- 9.7 Consider, review and monitor with the external auditors and the head of risk and head of compliance (where appropriate):
- The adequacy of the group's systems for internal control and financial reporting.
 - The scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.
 - The contents of the external auditor's reports and management's responses.
 - The company's statements on risk and on internal control systems prior to endorsement by the board.

Regulation

- 9.8 Enquire of management, the head of compliance and the external auditors about significant regulatory risks and evaluate the steps taken to minimise such risks.
- 9.9 Consider and review the minutes of compliance meetings and other reports and the actions arising from them.
- 9.10 Consider and review with the head of compliance the contents of regulators reports and management responses.

External Audit

- 9.11 Make recommendations to the board of directors regarding the appointment, reappointment and removal of the external auditors.
- 9.12 Approve the terms of engagement and the remuneration of the external auditors for audit services.
- 9.13 Review and monitor on an annual basis the audit service provided by the external auditors including their resources, expertise, independence and objectivity.
- 9.14 Set and apply a formal policy regarding the use of the external auditors for non-audit work, considering the nature of permissible non-audit services, pre-approval required by the Committee and the fee levels relative to the audit fee.
- 9.15 To meet with the external auditors at least twice a year, once at the audit planning stage and once post audit at the reporting stage.
- 9.16 To meet at least once a year with the external auditors without executive management being present

Internal Audit

- 9.17 Review at least annually the need for or size of the internal audit function.
- 9.18 Consider and review annually with management and the head of risk:
- The quality and effectiveness of the internal review function; and report their findings to the board.
 - Any difficulties encountered in the course of internal reviews, and any restrictions placed on internal review scope of work or access to required information or personnel.
 - The internal review plan of future audits.
 - The risk department's resources, and budget.
 - Any changes which have been required in the previous approved internal review plan.
 - The risk department's charter.
- 9.19 Arrange, if appropriate, for an independent, external assessment of the risk function. In line with the professional standards of the Chartered Institute of Internal Auditors, this review should be commissioned on a regular basis.

Compliance

- 9.20 Review and approve, where possible in advance of the event, the appointment, replacement, reassignment or dismissal of the head(s) of compliance.
- 9.21 Consider and review annually with management and the head(s) of compliance:
- The quality and effectiveness of the compliance function and report their findings to the board
 - Compliance department's resources
 - Relationship with the regulators
 - Plans for compliance monitoring

10. Reporting responsibilities

The chairman of the Committee shall report on Committee business to the Board with such recommendations as the Committee may deem appropriate. The Committee shall produce a report of its activities to be included in the company's annual report.

11. Other matters

The Committee shall:

- Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- Be provided with appropriate training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- Give due consideration to laws and regulations, and the requirements of the FCA, SRA and UK Listing Authority Rules and any other applicable Rules, as appropriate.
- Arrange for periodic reviews of its own performance and review its constitution and terms of reference and recommend any changes it considers necessary to the Board for approval.
- Review the Companies' procedures by which staff may raise concerns about possible improprieties in matters of financial reporting and other matters and to ensure that arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow up actions

12. Authority

The Committee is authorised:

- To seek any information it requires from any employee of the company in order to perform its duties.
- To obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference.
- To ask any employee to attend a meeting of the Committee as and when required.
- To form a sub-committee to address specific aspects of its duties.