

**Mereo BioPharma Group plc  
("the Company")**

**Audit and Risk Committee**

**Terms of Reference**

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## **AUDIT AND RISK COMMITTEE TERMS OF REFERENCE**

Reference to "the Board" shall mean the board of directors.

Reference to "the Committee" shall mean the Audit Committee.

Reference to "the Code" shall be to the UK Corporate Governance Code.

The Committee was established by the Board on 19 October 2015

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### **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 Committee. The Committee shall be made up of at least three members.
- 1.2 The majority of the members of the Committee shall be independent non-executive directors and at least one member of the Committee shall have recent and relevant finance experience, ideally with a professional qualification from one of the professional accountancy bodies. The chairman of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals (where applicable) such as the chairman of the Board, chief executive, chief financial officer, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors and the finance director should 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 which may be extended by no more than two additional periods of up to three years, so long as members continue to be independent.
- 1.6 The Board shall appoint the Committee chairman who shall be an independent non-executive director and initially shall be Paul Blackburn. 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.

- 1.7 Each member of the Committee shall disclose to the Committee:
  - a) Any personal financial interest in any matter to be decided by the Committee (other than as a shareholder);
  - b) Any potential conflict of interest arising from a cross directorship; andAny such member shall abstain from voting on resolutions of the Committee in relation to which such interests exist and from participating in the discussions regarding such resolutions and (if so requested by the board) shall resign from the Committee.
- 1.8 The initial members of the Committee shall be Paul Blackburn, Kunal Kashyap, and Anders Ekblom.

## 2. **Secretary**

The company secretary or their nominee shall act as the secretary of the Committee. The company secretary shall 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**

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**

The Committee shall meet at least three times a year to coincide with key dates within the financial reporting and audit cycle and otherwise as any of the Committee members shall require. A meeting shall be held as soon as reasonably practicable upon a request for such a meeting by the Company's external auditors.

## 5. **Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner.
- 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, all other non-executive directors and Directors, 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 after the meeting to all members of the Committee and, once agreed, to all members of the Board, 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 shareholders questions on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below for the parent company, any major subsidiary undertakings and the group (where applicable) as a whole, as appropriate.

### **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, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 8.1.2 The Committee shall review and challenge where necessary:
  - 8.1.2.1 The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Company;
  - 8.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible;
  - 8.1.2.3 Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 8.1.2.4 The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and

8.1.2.5 All material information presented with the financial statements such as the operating and financial review.

8.1.3 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.

## **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 controls and risk management systems; and

8.3.2 review and approve any statement to be included in the annual report concerning internal controls and risk management.

## **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 to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigations of such matters and appropriate follow-up action.

8.4.2 Review the Company's procedures for detecting fraud.

8.4.3 Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.4.4 Review the Company's Code of Conduct on business ethics and receive reports on non-compliance.

8.4.5 Regularly review the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

- 8.4.6 Review regular reports from the compliance officer of the Company and keep under review the adequacy and effectiveness of the Company's compliance functions.

## 8.5 Internal Audit

The Committee shall consider at least once a year whether there should be an internal audit function and make recommendations to the Board accordingly. The absence of such a function should be explained in the annual report.

## 8.6 External Audit

The Committee shall:

- 8.6.1 Oversee the process and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external 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):

- 8.6.2.1 Pre-approval of audit and non-audit fees, recommendations on their remuneration, (whether fees for audit or non-audit services) and that the level of fees is appropriate to enable an adequate audit to be conducted;

- 8.6.2.2 Ensure procedures are in place to record all non-audit services undertaken by the Company's auditors

- 8.6.2.3 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- 8.6.2.4 assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

- 8.6.2.5 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 objectivity;

- 8.6.2.6 agreeing with the Board a policy on the employment of former employees of the

- 8.6.2.7 Company's auditor, then monitoring the implementation of this policy;
- 8.6.2.7 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; and
- 8.6.2.8 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.
- 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, without management being present, 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, having regard to the seniority, expertise and experience of the audit team;
- 8.6.5 review the findings of the audit with the external auditors. This shall include, but not be limited to, the following:
  - 8.6.5.1 a discussion of any major issues which arose during the audit;
  - 8.6.5.2 any accounting and audit judgements;
  - 8.6.5.3 levels of errors identified during the audit; and
  - 8.6.5.4 the effectiveness of the audit.

The Committee should also:

- 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.

## 9. **Related Party Transactions**

The Committee should review and oversee any related party transactions to ensure no potential conflict of interest situation.

## 10. 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. This report shall include:

- 9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
- 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.2.7) and its recommendation on the appointment or reappointment of the external audit; and
- 9.1.3 any other issues on which the Board has requested the Committee's opinion.

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 produce 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; and all other information requirements set out in the Code.

9.4. In the 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.

## 11. Other Matters

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.2 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;
- 11.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's

- Listing, Prospectus and Disclosure and Transparency Rules and other applicable rules, as appropriate;
- 11.4 be responsible for co-ordination of the internal and external auditors;
  - 11.5 oversee any investigation of activities which are within its terms of reference and act as a court of last resort;
  - 11.6 work and liaise as necessary with all other Board committees; and
  - 11.7 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.

## **12. Authority**

The Committee is authorised:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 to have the right to publish in the company's annual report details of any issues that cannot be resolved between the Committee and the Board.

## **13. Risks**

The Committee shall:

- 13.1 Review and approve the Company's risk management system;
- 13.2 Review annually the key risks inherent and emerging in the business and the system of internal control necessary to monitor such risks;
- 13.3 Review a formal assurance plan at the beginning of the year to ensure adequate assurance coverage for all the Group's significant risks;
- 13.4 Review policies and procedures with respect to directors and officers expense accounts, including the use of corporate assets