

**Financial Reporting Council**

**Executive Counsel to the Financial Reporting Council**

**and**

**(1) Ernst & Young LLP**

**(2) Alan Flitcroft**

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**SETTLEMENT AGREEMENT**


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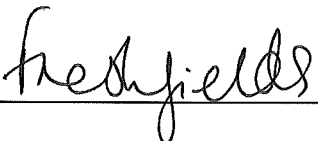
1. This Settlement Agreement ("*Agreement*") is made on the 12th day of December 2013 between Gareth Rees QC as Executive Counsel of the Financial Reporting Council ("*FRC*"), of Aldwych House, 71-91 Aldwych, London WC2B 4HN ("*Executive Counsel*") of the first part, and Ernst & Young LLP ("*EY*"), of 1 More London Place, London SE1 2AF of the second part and Alan Flitcroft formerly of EY of the third part. Executive Counsel, EY and Alan Flitcroft together are described as "*the Parties*".
2. The Agreement is evidenced by the signatures of Executive Counsel on his own behalf, by Freshfields Bruckhaus Deringer LLP on behalf of EY and Alan Flitcroft.
3. Executive Counsel has delivered the annexed Formal Complaint dated 26 September 2012 against EY and Alan Flitcroft concerning the conduct of EY and Alan Flitcroft during the audit of European Home Retail Plc ("*EHR*") and Farepak Food and Gifts Limited ("*Farepak*") during 2005 and 2006 ("the Formal Complaint").
4. The parties have agreed terms of settlement with respect to the Formal Complaint against EY and Alan Flitcroft.

5. EY and Alan Flitcroft admit allegations 1 to 4 inclusive of the Formal Complaint. Executive Counsel withdraws allegation 5.
6. Executive Counsel does not allege any causative link between EY/Alan Flitcroft's conduct and (i) Farepak's entry into administration; (ii) the timing of Farepak's entry into administration; and (iii) the losses to the Farepak savers.
7. The Parties recognise that the determination to be made in this case is a matter for the Disciplinary Tribunal ("*the Tribunal*") in accordance with paragraph 8(5) of the FRC Accountancy Scheme ("*the Scheme*"). The Parties have agreed the following terms of settlement:
  - (a) A fine of £750,000 to be paid by EY, adjusted from £850,000 to reflect the admissions made by EY (in accordance with paragraph 57 and 59 of the FRC's Sanctions Guidance);
  - (b) EY to receive a Reprimand;
  - (c) A sum of £425,000 to be paid by EY for the Executive Counsel's costs of, and incidental to, the investigation and the Formal Complaint;
  - (d) A fine of £50,000 to be paid by Alan Flitcroft, adjusted from £60,000 to reflect the admissions made by Mr Flitcroft (in accordance with paragraph 57 and 59 of the FRC's Sanctions Guidance);
  - (e) Alan Flitcroft to receive a Reprimand.
8. The above sanctions were agreed taking into account the following key factors:
  - (a) The nature, extent and importance of the standards breached.
  - (b) The need for a deterrent element.
  - (c) The seniority of Mr Flitcroft's position
  - (d) The fact that the Misconduct was unintended.

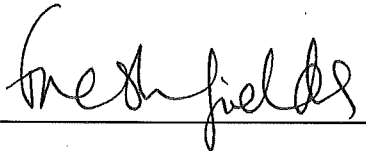
- (e) The fact that the Misconduct did not involve dishonesty or a breach of integrity.
  - (f) The fact that the Respondents cooperated very properly during the investigation.
  - (g) The misconduct was an isolated event occurring over a brief period.
9. If approved by the Tribunal, the Agreement, including the sanctions and costs set out at paragraph (7) above, shall take effect from the next working day after the date on which notice of the decision is given to Alan Flitcroft and EY in accordance with paragraph 8(5) of the Scheme.
10. The Agreement and the annexed Formal Complaint will remain confidential until publication in accordance with paragraph 8(6) of the Scheme.

  
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**Gareth Rees QC,  
Executive Counsel**

17.12.13  
**Date**

  
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**Freshfields Bruckhaus Deringer LLP  
on behalf of EY**

12.12.13  
**Date**

  
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**Freshfields Bruckhaus Deringer LLP  
On behalf of Alan Flitcroft**

12.12.13  
**Date**