

THG

Audit Committee Terms of Reference

THG PLC

1. Purpose

The Board of Directors of the Company (the "Board") has established an Audit Committee (the "Committee") the purpose of which is to support the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 1.1 the independence and effectiveness of internal and external audit functions;
- 1.2 the integrity of the Company's financial and narrative statements; and
- 1.3 the Company's internal financial controls, internal controls and, as appropriate and in conjunction with the Board-appointed risk committee (the "Risk Committee"), risk management framework.

2. Composition and Meetings

- 2.1 The Committee shall comprise at least three members of the Board who shall be independent non-executive directors of the Company ("NEDs"), one of whom, where possible, shall be a member of the Remuneration Committee with recent and relevant financial expertise and experience with competence in accounting and/or auditing as determined by the Board, and one of whom shall be a member of the Risk Committee. Members of the Committee shall be appointed by the Board, upon the recommendation of the Nomination Committee in consultation with the Chair of the Committee ("Chair"). Appointments shall be for a period of up to three years which may be extended by up to two additional three-year periods, provided members remain independent and satisfy any other membership criteria.
- 2.2 All members of the Committee shall have the skills and experience appropriate for membership of an audit committee and the Committee as a whole shall have the necessary competence relevant to the sectors in which the Company operates.
- 2.3 The Chair of the Board shall not be a member of the Committee.
- 2.4 The Chair shall be appointed by the Board and shall be a NED. In the absence of the Chair and/or any appointed deputy at a meeting of the Committee, the members present shall elect one of their number to chair the meeting.
- 2.5 The quorum for Committee meetings is any two of its members with the inclusion of the Committee member with recent and relevant financial expertise and experience with competence in accounting and/or auditing.

- 2.6 If any member of the Committee is unable to act for any reason, the Chair may appoint any other NED to act as their alternate.
- 2.7 The Company Secretary (or a nominee as otherwise appointed) shall be the secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues tabled at any Committee meeting. The Committee shall have access to the services of the Company Secretariat Team on all Committee matters including, as required, assisting the Chair in planning the Committee's work, compiling Committee agendas, maintenance of minutes, drafting of annual report content, collection and distribution of information and provision of any necessary practical support.
- 2.8 Only members of the Committee (and any individual entitled to be present as an observer) have the right to attend meetings of the Committee. However, the Chair of the Board, the Company's Chief Financial Officer ("CFO"), Deputy CFO and Head of Internal Audit, together with the Lead Partner from the appointed external auditor ("Lead Partner"), shall be invited and expected to attend Committee meetings on a regular basis. Other non-members may also be invited to attend all or part of any Committee meeting as and when deemed appropriate and/or necessary.
- 2.9 Meetings of the Committee shall be held at least four times a year at appropriate times in the financial reporting and audit cycle and as otherwise required. Any of the Committee members, the CFO, the Deputy CFO, Head of Internal Audit or the Lead Partner may request a meeting of the Committee if they consider it necessary or desirable, such meeting to be arranged by the Company Secretary (or their nominee).
- 2.10 There should be sufficient interval between meetings of the Committee and meetings of the Board to allow the Committee to carry out its work and report on it to the Board. The meetings should also be scheduled in the manner to allow maximised Committee members' attendance.
- 2.11 The Chair and, to a lesser extent, the other Committee members shall maintain a dialogue outside the formal meeting dialogue with key individuals involved in the governance of the Company, including the Chair of the Board, Chief Executive Officer, the CFO, the Deputy CFO, the Head of Internal Audit and the Lead Partner.
- 2.12 Unless otherwise agreed, notice of each Committee meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be circulated to each Committee member, and any other person required to attend, no later than three 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. Such notices, agendas and supporting papers shall be sent in electronic format, unless otherwise agreed. Meetings of the Committee may be conducted when the members are physically present together or by means of audio/video conference.

3. Duties and Responsibilities

- 3.1 The Committee shall carry out the undernoted duties and responsibilities for the Company, each Group company (as appropriate/required) and the Group as a whole.

External audit

- 3.2 In respect of the external audit the Committee shall:

- 3.2.1 have primary responsibility for the appointment of an external auditor, including negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the Board on the appointment, reappointment and removal of an external auditor;
- 3.2.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, develop and oversee the selection process in accordance with all applicable legal, professional and regulatory requirements and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 3.2.3 oversee the relationship with the external auditor including (but not limited to):
 - (a) considering and approving the external auditor's remuneration, including fees for audit or non-audit services and ensuring the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - (b) consideration and approval of the external auditor's terms of engagement, including any engagement letter issued at the start of each audit, and nature and scope of the audit;
 - (c) assessing annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, other ethical and professional requirements and the Ethical Standards for Auditors (including guidance on rotation of audit partner and staff and considering the annual disclosure from the statutory auditor and any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services);
 - (d) assessing annually all relationships between the Company and the external auditor, including throughout the Company's Group and the external auditor's network firms, and satisfying itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

- (e) the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assessing these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standards for Auditors;
- (f) assessing annually the external auditor's qualifications, expertise and resources and independence and the effectiveness of the external audit process which shall include a report from the external auditor on their own internal quality procedures;
- (g) evaluating the risks to the quality and effectiveness of the financial reporting process, having regard to the external auditor's communications with the Committee; and
- (h) being responsible for the oversight of the coordination of the external audit function with the activities of the Internal Audit function.

3.2.4 meet regularly with the external auditor, including at least once without Management present to discuss its remit and any issues arising from the audit and at the planning stage pre-audit and the reporting stage post-audit;

3.2.5 review the findings of the audit with the external auditor and this shall include, but shall not be limited to, the following:

- (a) a discussion of any major issues which arose during the audit;
- (b) an explanation by the external auditor of how the risks to audit quality were addressed and discuss the network level controls the external auditor relied upon to address the identified risks to audit quality;
- (c) a review of areas of significant judgement and a review of key accounting and audit judgements;
- (d) a discussion with the external auditor regarding their perception of their interactions with Management and other members of the Finance team;
- (e) level of errors identified during the audit; and
- (f) general effectiveness of the audit process;

3.2.6 review:

- (a) any representation letters requested by the external auditor before they are signed by Management, giving particular consideration to matters where representation has been requested that relate to non-standard issues; and
- (b) the Management letter and Management's response to the external auditor's findings and recommendations;

- 3.2.7 advise the Board on the provision of non-audit services by the external auditor in accordance with best practice, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
- (a) threats to independence and objectivity of the external auditor and any safeguards in place;
 - (b) the nature of the non-audit services;
 - (c) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (e) the criteria governing compensation;
- 3.2.8 advise the Board on the employment of former employees of the Company's external auditor taking into account the Ethical Standard for Auditors and any applicable legal or regulatory requirements and monitoring the implementation of this policy; and
- 3.2.9 if an external auditor resigns, to investigate the issues leading to this and decide whether any action is required.

External Audit Plan

- 3.3 In respect of the external audit plan the Committee shall:
- 3.3.1 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; and
 - 3.3.2 review whether the external auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditor to address those risks.

Financial Reporting

- 3.4 In respect of financial reporting the Committee shall:
- 3.4.1 monitor the integrity of the Company's financial statements including its half-year financial statements, annual report and accounts, preliminary announcements and any other formal statements concerning the Company's financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditor;

3.4.2 as required, review the strategic report, significant financial returns to regulators and any financial information contained in certain other documents, such as public announcements of inside information and of commercially sensitive nature;

3.4.3 where necessary, review and challenge:

- (a) the application, consistency of and any changes to significant accounting policies;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has adopted appropriate accounting policies and standards and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (e) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management; and
- (f) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, shall report its views to the Board; and

3.4.4 review any other statements requiring Board approval which contain financial information where carrying out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any applicable law or regulation including, without limitation, the Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules sourcebook and the Disclosure Guidance and Transparency Rules and/or the Market Abuse Regulation.

Narrative Reporting

3.5 In respect of narrative reporting the Committee shall, where requested by the Board, review the content of the annual report and accounts and the interim financial statements and advise the Board on whether, when taken as a whole, each are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy and whether other information presented in the annual report is consistent with the financial statements.

Internal Controls and Risk Management Systems

3.6 In respect of internal controls and risk management systems the Committee shall, in support of the Board's risk management strategy and in conjunction with the Risk Committee:

- 3.6.1 review the results of independent audits of the Company's performance with regard to safety and environmental matters, review any strategies and action plans developed by Management in response to issues raised and, where appropriate, make recommendations to the Board concerning same;
- 3.6.2 assist the Board with monitoring and reviewing the Group's internal control systems on an ongoing basis, including monitoring material financial, operational and compliance controls;
- 3.6.3 assist the Board with its annual review of, and report on, the effectiveness of the Group's internal control systems and the viability statement, including meeting at least once annually with the Head of Internal Audit, in the absence of Management, to discuss the internal audit, control and risk management functions (other than in relation to those matters for which the Committee is responsible), and review the Company's statement on internal control prior to endorsement by the Board;
- 3.6.4 assist the Board to draw on the results of the ongoing monitoring process to obtain sound, appropriately documented evidence to support the relevant statements and confirmations required from the Board in, for example, the annual report and the half-yearly financial statements including:
 - (a) in conjunction with the Risk Committee, that the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
 - (b) how the Board has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate;
 - (c) whether the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment; and
 - (d) the appropriateness of adopting the going concern basis of accounting in the financial statements and whether there are any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- 3.6.5 in conjunction with the Risk Committee, seek assurance on those risks which are identified as potential risks to which the organisation may be exposed.

Internal Audit

3.7 In relation to the Internal Audit function the Committee shall:

- 3.7.1 ensure that:
 - (a) there is open communication between different Group functions and that Internal Audit evaluates the effectiveness of the Risk (in conjunction with the Risk Committee as appropriate), Compliance and Finance functions as part of its internal audit plan; and

- (b) Internal Audit has unrestricted scope, the requisite resources and access to all necessary information to enable it to properly and effectively fulfil its mandate and is equipped to perform its function in accordance with appropriate professional standards for internal auditors;

- 3.7.2 approve the appointment and removal of the Head of Internal Audit;
- 3.7.3 ensure that Internal Audit has access to the Committee and Chair of the Board as and when necessary and the reporting line of the Internal Audit function is such that it is independent of the Executive Management Team and positioned to exercise independent judgement;
- 3.7.4 review and approve the role and mandate of the Internal Audit function, monitor and review the effectiveness of its work, and annually approve the Internal Audit charter ensuring it is appropriate for the ongoing needs of the organisation;
- 3.7.5 review and approve the annual internal audit plan to ensure it is aligned to the key needs of the business and receive regular reports on work undertaken;
- 3.7.6 monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Company's risk management system and the work of the Compliance and Finance functions and the external auditor;
- 3.7.7 consider whether an independent third-party review of processes is appropriate;
- 3.7.8 in the absence of Management, meet with the Head of Internal Audit to discuss the effectiveness of the function; determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and review the actions taken by Management to implement the recommendations of and support the effective working of the Internal Audit function; and
- 3.7.9 where external auditors are being considered to undertake aspects of the Internal Audit function, consider the effect this may have on the effectiveness of the Company's overall arrangements for internal control, the effect on the objectivity and independence of the external auditor and the Internal Audit function and investor perceptions in this regard; noting that investor perceptions are likely to be influenced by:
 - (a) the reporting in the annual report and accounts on the nature and extent of the work being performed by the external auditor; and;
 - (b) whether, in the absence of internal audit work, the Committee is wholly reliant on the views of the external auditor regarding the effectiveness of its system of controls relating to core activities and significant locations.

Compliance, Speaking-up and Fraud

- 3.8 The Committee shall review the adequacy and security of the Company's procedures through which employees, contractors and external parties may, in confidence, raise concerns about possible wrongdoing in financial reporting or other such matters and shall ensure that such arrangements allow proportionate and independent investigation of these matters and the appropriate follow-up action to be taken.
- 3.9 The Committee shall further review:
- 3.9.1 the Company's procedures for preventing and detecting fraud;
 - 3.9.2 the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
 - 3.9.3 the adequacy and effectiveness of the Company's anti-money laundering systems and controls and the Company's compliance function.

Recommendations, Reports and Actions

- 3.10 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters falling within the scope of its duties and responsibilities.
- 3.11 A formal report on the Committee's activities and how the Committee has discharged its duties and responsibilities shall be included in the Company's Annual Report & Accounts and this report shall include, to the extent appropriate and/or relevant:
- 3.11.1 the significant issues that it considered in relation to any financial statements and how these were addressed;
 - 3.11.2 its assessment of the effectiveness of the external audit process, how the Committee has assessed auditor independence, the approach taken in respect of the appointment or reappointment of the external auditor, the length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans;
 - 3.11.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor;
 - 3.11.4 the results of its risk management and internal compliance and control systems; and
 - 3.11.5 any other issues on which the Board has requested the Committee's opinion.
- 3.12 The Committee shall further:
- 3.12.1 consider the major findings of internal investigations and Management's response;
 - 3.12.2 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

3.12.3 oversee any investigation of activities which fall within these Terms of Reference;

3.12.4 provide advice to the Remuneration Committee on any risk weightings to be applied to performance objectives incorporated in the incentive structure for Executive remuneration and make recommendations to the Remuneration Committee on clawback provisions; and

3.12.5 consider any other matters as referred to it by the Board.

4. Audit Committee Chair

The Chair shall:

- 4.1 attend the Company's annual general meeting prepared to answer any shareholders' questions in respect of the Committee's work;
- 4.2 seek engagement with the Company's shareholders on significant matters related to the Committee's purpose, duties and responsibilities; and
- 4.3 at least once annually, convene a joint meeting with the Risk Committee, chaired jointly by the chairs of each committee, to include a review of the Company's risk management process as a whole to ensure its appropriateness and effectiveness in identifying emerging and principal risks.

5. Audit Committee Secretary

The secretary of the Committee shall:

- 5.1 minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance;
- 5.2 ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly; and

- 5.3 agree the draft minutes of Committee meetings with the Chair, promptly circulate such agreed minutes to all Committee members and, once agreed by the Committee as a whole, circulate to all members of the Board and the Company Secretary, unless a conflict of interest exists or, exceptionally, it would be inappropriate to do so in the opinion of the Chair.

6. Authorisations

The Committee is authorised by the Board to:

- 6.1 undertake and investigate any activity which falls within these Terms of Reference;
- 6.2 seek any information it requires from any employee of the Company and/or Group company and to call any such employee to be questioned at a meeting of the Committee as and when required (and all such employees are directed to cooperate with any request made by the Committee);
- 6.3 obtain, at the Company's expense, such independent legal, accounting or other professional advice on any matter it deems necessary in the proper and effective execution of its duties and responsibilities;
- 6.4 secure the attendance of any other person at any meeting of the Committee if it considers this necessary and/or desirable; and
- 6.5 delegate any matter(s) to any other committee or person(s) as it deems appropriate.

7. Other Matters

- 7.1 The Committee shall:
- 7.2 have access to sufficient resources in order to properly and effectively discharge its duties and responsibilities, including access to the Company Secretariat Team for advice and assistance as required;
- 7.3 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 Committee members;

- 7.4 give due consideration to all applicable legal, regulatory and professional requirements and guidance, as appropriate, when undertaking its duties and responsibilities including, without limitation, section 172 of the Companies Act 2006, the provisions of the UK Corporate Governance Code (July 2018) and related published guidance, any UK government guidance on sustainability reporting, the Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules sourcebook and/or the Disclosure Guidance and Transparency Rules and the Ethical Standards for Auditors, and, if applicable in respect of any Group company, the Wates Corporate Governance Principles for Large Private Companies (December 2018), together with any other requirements as appropriate;
- 7.5 work and liaise as necessary with all other committees of the Board, ensuring interaction between such committees and the Board is reviewed regularly, with specific reference to the delegation and division of certain responsibilities between the Committee and the Risk Committee in respect of the impact of risk management and internal controls; and
- 7.6 at least annually, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary for Board approval.

