

NEXT

Audit Committee

Terms of Reference

NEXT plc (the Company)

1. Membership

- 1.1 The Committee shall comprise at least three members. 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.
- 1.2 All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Committee members should have a degree of experience of corporate financial matters and as a whole shall have competence relevant to the sector in which the company operates. 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, the Chief Financial Officer, the head of internal audit and the external auditor will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 The Board shall appoint the Committee Chairman. 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

- 2.1 The Company Secretary, or their 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

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

4. Frequency of meetings

- 4.1 The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. The meetings may be held in person or by telephone or videoconference.
- 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, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

5. Notice of meetings

- 5.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or the head of internal audit 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 all other non-executive directors, no later than two 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 decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

7. Annual General Meeting (AGM)

The Committee Chairman should attend the AGM to answer shareholder questions on the Committee's activities.

8. Duties

The Committee should carry out the duties below for the parent Company, major subsidiary undertakings and the Group 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, half-yearly and other significant formal announcements 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 In particular, 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/Group;
- 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 strategic report and directors' report and the corporate governance statements relating to the audit and to risk management. This should also include a review and assessment of the viability and going concern statements.

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 monitor the integrity of narrative statements. In particular, it should advise the Board on whether the annual report and financial statements and any other price-sensitive public reports, taken as a whole, are fair, balanced and understandable and whether the annual report provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

8.3 *Environmental, Social and Governance (ESG)*

The Committee shall:

- 8.3.1 receive regular updates on the Group's ESG activities from the ESG Steering Group via the Head of Sustainability and ensure that the ESG approach is aligned with the Company's corporate strategy, purpose and values;
- 8.3.2 agree and develop the Committee's monitoring tasks with regard to the assurance of sustainability reporting;
- 8.3.3 monitor progress against climate-related and broader ESG targets and key performance indicators;
- 8.3.4 keep under review the impact of the Group's operations on the environment, social and economic communities, including related risks and opportunities in order to oversee and approve the Company's disclosures of ESG matters in the annual report;
- 8.3.5 keep under review material climate-related risks and opportunities and their impact on the financial statements;
- 8.3.6 monitor adherence to externally applicable social, ethical and sustainability codes and principles; and
- 8.3.7 provide updates to the Board as necessary.

8.4 *Internal controls and risk management*

The Committee shall:

- 8.4.1 monitor and keep under review the adequacy and effectiveness of the Company's risk management and internal control framework (including operational and compliance controls) and, at least annually, carry out a review of their effectiveness;
- 8.4.2 where requested by the Board, ensure that a robust assessment of the emerging and principal risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency, liquidity or reputation, that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks. and the consideration of acceptable risk tolerance levels for the Group; and
- 8.4.3 review and recommend to the Board disclosures included in the annual report concerning internal control, risk management and the viability statement.

8.5 *Compliance, whistleblowing and fraud*

The Committee shall:

- 8.5.1 review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence and anonymously, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.5.2 review the Company's procedures for detecting fraud;
- 8.5.3 review the Company's systems and controls for business continuity and the prevention of modern slavery and bribery, and receive reports on non-compliance; and
- 8.5.4 review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls.

8.6 *Internal audit*

The Committee shall:

- 8.6.1 approve the appointment or termination of appointment of the head of internal audit;
- 8.6.2 review and approve the internal audit function's role and mandate;
- 8.6.3 approve the annual internal audit plan, ensuring that it is aligned to the key risks of the business and paying particular attention to the areas in which work of the risk, compliance, finance, internal audit and external audit functions may be aligned or overlapping, and overseeing these relationships to ensure they are coordinated and operating effectively to avoid duplication;
- 8.6.4 review and annually approve, where relevant, the internal audit charter to ensure that it is appropriate to the current needs of the organisation;

- 8.6.5 ensure there is open communication between the different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan;
- 8.6.6 ensure the function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.6.7 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
- 8.6.8 review and assess the annual internal audit work plan to ensure that it is aligned to the key risks of the business;
- 8.6.9 receive a report on the results of the internal auditor's work on a periodic basis;
- 8.6.10 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 8.6.11 meet with the head of internal audit at least once a year without the presence of management;
- 8.6.12 monitor and review the effectiveness of the Company's internal audit function in the overall context of the Company's risk management system and taking into account whether the quality, experience and expertise of internal audit is appropriate for the business; and
- 8.6.13 consider whether an independent, third party review of processes is appropriate.

8.7 External Audit

The Committee shall:

- 8.7.1 follow the Audit Committees and the External Audit: Minimum Standard;
- 8.7.2 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment, remuneration and removal of the Company's external auditor, and, where the Board does not accept the Committee's recommendation, include a statement explaining its recommendation and reasons why the Board has taken a different position in the annual report;
- 8.7.3 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, conduct the tender process and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process, having regard to EU Audit Regulations requiring mandatory rotation;
- 8.7.4 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.7.5 oversee the relationship with the external auditor including (but not limited to):

- 8.7.5.1 to negotiate and agree the auditor's fees, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- 8.7.5.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.7.5.3 review, monitor and annually assess their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- 8.7.6 developing and implementing a policy on the engagement of the external auditor to supply non-audit services ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and any relevant ethical guidance on the matter, and reporting to the Board on any improvement or action required;
 - 8.7.6.1 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;
 - 8.7.6.2 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
 - 8.7.6.3 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - 8.7.6.4 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 and obtaining feedback from key people involved in the audit process;
 - 8.7.6.5 seeking to ensure co-ordination with the activities of the internal audit function; and
 - 8.7.6.6 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 their auditor from the market in that evaluation;
- 8.7.7 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.7.8 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
- 8.7.9 review the findings of the audit with the external auditor, which shall include but not be limited to a summary of, the following:

- 8.7.9.1 a discussion of any major issues which arose during the audit;
- 8.7.9.2 key accounting and audit judgements;
- 8.7.9.3 levels of errors and judgmental difference identified during the audit; and
- 8.7.9.4 the effectiveness of the audit process.

The Committee shall also:

- 8.7.10 review any representation letter(s) requested by the external auditor before they are signed by management; and
- 8.7.11 review the management letter and management's response to the auditor's findings and recommendations.

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 to the Board on how it has discharged its responsibilities. This report shall include:
 - 9.1.1 the significant issues and judgements 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 8.7.6.4) and its recommendation on the appointment or reappointment of the external auditor; 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 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 independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor; 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 Corporate Governance Code including details of the external audit tenure, when a tender was last conducted and advance notice of any retendering plans and an explanation of how auditor independence is achieved and an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.
- 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.

9.5

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;
- 10.2 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;
- 10.3 give due consideration to laws and regulations, the provisions of the Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- 10.4 be responsible for co-ordination of the internal and external auditors;
- 10.5 oversee any investigation of activities which are within its terms of reference;
- 10.6 work and liaise as necessary with all other Board Committees;
- 10.7 make available to shareholders these terms of reference by placing them on the Company's website; and
- 10.8 arrange for annual reviews by the Board of the Audit Committee's effectiveness and performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

11. Authority

The Committee is authorised to:

- 11.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so; and within any financial or other constraints imposed by the Board;
- 11.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.4 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.

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