

# Hilton Food Group plc

## Terms of Reference - Audit Committee

Approved by the Board on 16 December 2020.

### 1. Constitution

- 1.1. The Board of Directors of Hilton Food Group plc (the "**Board**") hereby constitutes and establishes an Audit Committee (the "**Committee**"). These terms of reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK Corporate Governance Code and to assist the Committee in achieving best practice in corporate governance for Hilton Food Group and its subsidiaries.

### 2. Membership

- 2.1. 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 Chairman**"). The Committee shall have at least three members. All members of the Committee shall comprise independent Non-Executive Directors. At least one of the members shall have recent and relevant experience working with financial and accounting matters with competence in accounting and/or auditing.
- 2.2. The Chair of the Board shall not be a Committee member but may be invited to attend its meetings.
- 2.3. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided the Director remains independent.
- 2.4. The Board shall appoint the Committee Chairman who shall be an independent non-executive Director. 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.
- 2.5. The Committee chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 2.6. The Company Secretary or their nominee shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

### 3. Quorum

- 3.1. The quorum necessary for the transaction of business at a Committee meeting shall be two members present in person or by audio or video conference.

### 4. Attendance at Meetings

- 4.1. The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycles and otherwise as required.
- 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.
- 4.3. Only Committee members have the right to attend and vote at Committee meetings. However, the Chief Financial Officer, head of internal audit and external audit lead partner may be invited to attend meetings of the Committee and other non-members may be invited to attend all or part of any meetings as and when appropriate and necessary.

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### 5. Notice of Meetings

- 5.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the Chief Financial Officer, external audit lead partner or head of internal audit.
- 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 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, but Committee papers may, in exceptional circumstances,, be forwarded at shorter notice with the approval of the Committee Chair.
- 5.3. The Committee may send notices, agendas and supporting papers in electronic form where the recipient has agreed to receive documents in such a way.

### 6. Minutes of Meetings

- 6.1. The secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.
- 6.2. Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chairman it would be inappropriate to do so.

### 7. Annual General Meeting

- 7.1. The Committee Chairman should attend the Annual General Meeting prepared to answer any shareholder questions on the Committee's activities.

### 8. Duties

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the following duties for Hilton Food Group plc and the Group as appropriate.

#### 8.1. Financial Reporting

The Committee shall:

- (a) monitor the integrity of the financial statements of the Company, including its annual and half year reports, preliminary results announcements and any other formal statements relating to its financial performance;
- (b) 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;
- (c) review and challenge where necessary:
  - (i) the application of significant accounting policies and any changes to them;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has made appropriate estimates and judgements, taking into account the external auditor's views;
  - (iv) the clarity and completeness of financial reporting disclosures and any changes to those disclosures taking into account any matters raised by the external auditor ;
  - (v) significant adjustments resulting from the external audit (including any adjustments proposed by the external auditors that have not been adopted); and

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- (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);
- (d) monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements that are applicable to the Company;
- (e) review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- (f) review first any other statements that contain financial information and require Board approval, if carrying out a review before Board approval would be practical and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook; and
- (g) where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, 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 and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code.

### 8.3. Risk management systems and internal controls

The Committee shall:

- (a) Risk management
  - (i) On behalf of the Board (which retains overall responsibility for risk management) review and monitor the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and any other internal control and risk management systems, and at least annually carry out a review of their effectiveness
  - (ii) ensure that a robust assessment of the principal and emerging risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks;
  - (iii) review and monitor arrangements for crisis management and business continuity
  - (iv) review and approve the statements to be included in the annual report concerning internal controls, risk management, including principal and emerging risks, and the viability statement;
- (b) Management and internal and external audit reports
  - (i) review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively; and
- (c) Disclosures
  - (i) consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and
  - (ii) consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations

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given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;

### 8.4. Internal Audit

The Committee shall:

- (a) approve the appointment and removal of the head of internal audit;
- (b) review and approve the role and mandate of internal audit and monitor and review the effectiveness of its work and regularly approve the internal audit charter ensuring it is appropriate for the Company's current needs;
- (c) ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
- (d) review and approve the annual internal audit work plan to ensure it is aligned to the key risks of the business, and monitor the work carried out including:
  - (i) review and assess the progress of the annual internal audit plan and approve any change in the plan and ensure co-ordination between the internal and external auditors;
  - (ii) receive regular reports on the results of the internal auditor's work;
  - (iii) review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of the internal audit function;
- (e) ensure internal audit has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions;
- (f) determine whether it is satisfied that the quality, experience and expertise of internal audit are appropriate for the business;
- (g) monitor and review the role and effectiveness of the internal audit function in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor;
- (h) ensure that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- (i) ensure that the Committee meets with the head of internal audit to discuss effectiveness of the internal audit function, without management present, at least once per year; and
- (j) consider whether an independent, third party review of internal audit effectiveness and processes is required.

### 8.5 External Audit

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Standard's Revised Ethical Standard 2016 (Ethical Standard):

#### (a) Appointment, reappointment and resignation

- (i) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of the Company's external auditor;
- (ii) ensure that at least every ten years the audit services contract is put out to tender and comply with any regulations on auditor are observed 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, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- (iii) if an auditor resigns, investigate the issues leading to this and decide whether any action is required; and
- (iv) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation;

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### **(b) Terms of engagement**

oversee the relationship with the external auditor and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and agree and approve their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;

### **(c) Independence and expertise**

- (i) review and assess on an annual basis:
  - (A) the external auditor's independence and objectivity taking into account relevant UK law, regulation and the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - (B) the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (ii) seek reassurance from the external auditor and their staff and satisfy itself that there are no relationships with the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (iii) annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff;
- (iv) Review and agree with the Board the Company's policy on the employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements and monitor the application of this policy;

### **(d) Fees of external auditor**

monitor 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 assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;

### **(e) Non-audit services**

- (i) develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including 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 the external auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats;
  - (B) the nature of the non-audit services;
  - (C) in light of the external audit firm's skills and experience, 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 including special terms and conditions; and
  - (E) the criteria governing compensation of the individuals performing the audit;
- (ii) ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process; and
- (iii) keep the policy for the provision of non-audit services under review;

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### **(f) Audit cycle**

- (i) review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (ii) meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at each reporting stage), to discuss their remit and any issues arising from the audit including (but not limited to):
  - (A) any major resolved or unresolved issues that arose during the audit;
  - (B) the auditor's explanation of how risks to audit quality were addressed;
  - (C) key accounting and audit judgements;
  - (D) the auditor's view of their interactions with senior management; and
  - (E) levels of errors identified during the audit;
- (iii) and at least once a year, meet with the external auditor without management being present;
- (iv) consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of any matters raised by external auditor;
- (v) review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate.
- (vi) review, before its consideration by the board, the external auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations;
- (vii) at the end of the audit cycle, assess the effectiveness of the audit process including:
  - (A) reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed;
  - (B) understanding reasons for changes to the audit plan;
  - (C) considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;
  - (D) obtaining feedback from key people on the conduct of the audit; and
  - (E) reviewing and monitoring the content of the external auditor's management letter and reporting to the Board on the effectiveness of the audit process;

### **(g) Other matters**

Ensure co-ordination between the activities of the external auditor and the internal audit function.

## **8.6 Compliance, whistleblowing and fraud**

The Committee shall:

- (i) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters prior to approval by the Board. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and receive updates on any actual or potential whistleblowing cases
- (ii) review the Company's procedures for detecting fraud; and receive updates on any instances of fraud or suspected fraud, and any fraud investigations;
- (iii) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

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### 9 Reporting Responsibilities

The Committee shall:

- 9.1 Report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 Prepare a formal report on its activities and how the Committee has discharged its responsibilities to be included in the Company's annual report, which shall include:
  - (a) details of the membership of the Committee, number of meetings held and attendance over the course of the year;
  - (b) a summary of the role and work of the Committee;
  - (c) how the Committee's performance evaluation has been conducted;
  - (d) 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 external auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the Company's audit conducted by the Financial Reporting Council's Audit Quality Review team;
  - (e) an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company and the Group, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans (and reasons why completing the process in that proposed financial year is in the best interests of the Company's members) and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;
  - (f) the Committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, including commenting on ratio of audit to non-audit work and related fees, and for each significant engagement, or category of engagements, what the services are and why the Committee concluded that it was in the Company's interests to purchase them from the external auditor;
  - (g) an explanation of how the Committee has addressed the effectiveness of the internal audit process;
  - (h) all other information requirements set out in the UK Corporate Governance Code; and
  - (i) any other issues on which the Board has requested the Committee's opinion.
- 9.3 Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.4 In compiling the reports referred to in 9.2, 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 and the inputs to the Board's viability statement.
- 9.5 Make available to shareholders these terms of reference by placing them on the Company's website.

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### 10 General Matters

The Committee shall:

- 10.1 Consider other duties determined by the board from time to time.
- 10.2 Have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required.
- 10.3 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 members.
- 10.4 Give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority, as appropriate.
- 10.5 Work and liaise as necessary with all other Board Committees, taking particular account of the impact of risk management and internal controls being delegated to different Committees.
- 10.6 Arrange for periodic reviews of its own 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 for approval.

### 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 Carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate independent legal or professional advice on any matter within its terms of reference it considers necessary.
- 11.3 Call any employee to be questioned at a meeting of the Committee as and when required.
- 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.
- 11.5 Collectively and individually have direct access to the Chief Financial Officer the head of internal audit and the Company's external auditors.