
WHITBREAD PLC

(the "Company")

AUDIT COMMITTEE TERMS OF REFERENCE

Adopted by the Board on 22 March 2017

CONTENTS

Objectives of the Audit Committee

1. Constitution
2. Membership
3. Secretary
4. Quorum
5. Attendance at Meetings
6. Annual Meeting with the Auditors and Report to the Board
7. Frequency and Notice of Meetings
8. Duties
 - External Auditors
 - Financial Statements
 - Narrative Reporting
 - Internal Control and Risk Assessment
 - Internal audit
 - Compliance, Whistleblowing and Fraud
9. Authority
10. Minutes
11. Accountability to Shareholders and Reporting Responsibilities
12. Other matters

Appendix: Auditors Independence

- Permitted Audit and Audit Related Services
- Permitted in Certain Circumstances
- Not Permitted at All

OBJECTIVES OF THE AUDIT COMMITTEE

The objectives and purpose of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities by:

- (a) monitoring, reviewing and reporting to the Board on:
 - (i) the integrity of financial statements and whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
 - (ii) the effectiveness of the Group's risk management system and internal controls;
 - (iii) the scope, objectivity and effectiveness of the internal auditors;
 - (iv) the independence, objectivity and effectiveness of the external auditors;
 - (v) any matters in relation to (a) (i) to (iv) above in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
 - (vi) how the Committee has discharged its responsibilities.
- (b) developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
- (c) making recommendations to the Board, for it to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditors, and approving the remuneration and terms of their engagement.

1. Constitution

The board of the Company (“the Board”) has established the Audit Committee (the “Committee”) as a committee of the Board.

2. Membership

- 2.1 The Committee shall consist of not less than 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.
- 2.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and together as a whole, the Committee 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.
- 2.3 The Board may elect a Chairman of the meetings of the Committee who shall be an independent non-executive director and determine the period for which he is to hold office. If no such Chairman shall have been appointed, or if at any meeting the Chairman is not present within thirty minutes after the time appointed for holding the same, the members present may choose one of their number to be Chairman of the meeting or, if appropriate, adjourn the meeting to a later date.
- 2.4 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three year periods, provided the director still meets the criteria for membership of the Committee.

3. Secretary

The Company Secretary shall be the Secretary of the Committee.

4. Quorum

The quorum necessary for the transaction of the business of the Committee 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.

5. Attendance at Meetings

Only members of the Committee are entitled to be present at a Committee Meeting. The Committee may invite any person (including members of the Board) to attend all or any part of a meeting the Committee deems appropriate. In particular, the Committee would normally invite the Group Finance Director, and representatives of the external auditors and internal auditors of the Company to attend meetings of the Committee. The external audit lead partner will be invited to attend meetings of the Committee on a regular basis.

6. Annual Meeting with the Auditors and Report to the Board

- 6.1 At least once a year the Committee shall meet with the external auditors and internal auditors without executive management in attendance. The Chairman will bring any relevant matters to the full Board’s attention.
- 6.2 At least twice a year the Chairman of the Committee shall report to the Board of Directors on the financial sections of the report and accounts and the relationship with the auditors.

- 6.3 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 6.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

7. Frequency and Notice of Meetings

- 7.1 Meetings shall be held not less than three times a year and shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee. Committee meetings should be held to coincide with key dates within the financial reporting and audit cycle.
- 7.2 In addition to the routine meetings of the Committee, any member of the Committee, the Group Finance Director, the external auditors and the internal auditors may at any time request the Secretary of the Committee to summon a meeting if they consider that one is necessary. Further, the external auditors and the internal auditors may have access to the Chairman of the Company or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.
- 7.3 Sufficient time should be allowed for meetings to enable the Committee to undertake as full a discussion as may be required. A sufficient interval should be allowed between the Committee meetings and Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate.
- 7.4 Notice of meetings 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 together with the relevant papers. Whenever possible, the papers for the meetings will be sent out at least five working days prior to the meeting.
- 7.5 Wherever possible, at least five days notice of meetings shall be given.

8. Duties

The duties of the Committee shall be:-

External Auditors

- 8.1 To have primary responsibility for selecting external auditors and make recommendations to the Board on the appointment, re-appointment and removal of the external auditors for approval by shareholders and any question of their resignation or dismissal and shall ensure that key partners within the appointed firm are rotated from time to time. The external audit contract shall be put out to tender at least every ten years. The appointment of external accounting firms for significant items of work shall also require the approval of the Committee.
- 8.2 The Committee shall oversee the relationship with the external auditors including (but not limited to):
- 8.2.1 assessing annually their competence, independence, effectiveness and objectivity; taking into consideration relevant UK professional and regulatory requirements and the relationship as a whole, including the provision of any non-audit services.
- 8.2.2 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).

- 8.2.3 monitoring their 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.
- 8.2.4 assessing annually the qualifications, expertise, safeguards and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor of their own internal quality procedures and consideration of their annual transparency reports, where available. It may also be appropriate for the Committee to consider whether there might be any benefit in using firms from more than one audit network.
- 8.2.5 seeking from them annually information regarding policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.
- 8.2.6 seeking to ensure co-ordination with and being responsible for the activities of the internal audit function.
- 8.2.7 approving the remuneration and terms of engagement in respect of audit services provided and reviewing any other fees payable to them in respect of non-audit activities in line with the requirements of the Auditors Independence note attached to these Terms. The Committee should satisfy itself that the level of fee payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee;
- 8.2.8 agreeing a list of items of work which they are permitted to carry out for the Company other than audit work and to keep this work under review; the latest form of which is attached to these Terms of Reference. The Committee shall ensure that the provision of these services does not impair the objectivity or independence of the external auditor;
- 8.2.9 agreeing with the Board the Company's policy for the employment of former employees of the external auditor, taking into account Auditing Practices Board "Ethical standards for Auditors" paying particular attention to the policy regarding former employees of the audit firm who were part of the team and moved directly to the Company. The Committee should monitor application of the policy, including the number of former employees of the external auditor currently employed in senior positions in the Company, and consider whether in light of this there has been an impairment, or appearance of impairment, of the auditor's independence and objectivity in respect of the audit;
- 8.2.10 reviewing and approving the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year. The scope of the external audit should be reviewed by the Committee with the auditor. If the Committee is not satisfied with its adequacy it should arrange for additional work to be undertaken;
- 8.2.11 reviewing a report from the Finance Director on the items of non-audit work carried out by external accounting firms during the year;
- 8.2.12 developing and implementing a policy on the supply of non-audit services;
- 8.2.13 reviewing and monitoring the management letter and management's responsiveness to the external auditor's findings and recommendations.

- 8.3 To discuss the nature, operation and scope of the audit with the external auditors and to co-ordinate with the internal auditors before the audit commences and at the reporting stage and shall ensure that any management letters and management responses are reviewed (and to review management follow up of findings and recommendations).
- 8.4 To recommend to the Board a change of external auditor if considered appropriate.
- 8.5 The Committee shall 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 the auditor's remit and any issues arising from the audit.
- 8.6 The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 8.7 The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 8.7.1 a discussion of any major issues which arose during the audit
 - 8.7.2 any accounting and audit judgements
 - 8.7.3 levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted
 - 8.7.4 the effectiveness of the audit:
 - 8.7.4.1 whether the 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 auditors to address those risks
 - 8.7.4.2 consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the Committee, and in their commentary where appropriate on the systems of internal controls
 - 8.7.4.3 feedback about the audit from key people involved (e.g. Finance Director and the Director of Internal Audit)
 - 8.7.4.4 review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
- 8.8 review the audit representation letters before signature by management and give particular consideration to matters where representation has been requested that relate to non-standard issues. The Committee should consider whether the information provided is complete and appropriate based on its own knowledge.
- 8.9 if an auditor resigns, investigate the issues leading to this and decide whether any action is required.

Financial Statements

- 8.10 To review and report to the Board its views on the half-year financial statements, full year financial statements and accompanying reports to shareholders and financial aspects of preliminary announcement of results and any other formal announcement regarding material changes in the Company's financial performance before submission to the Board, focusing particularly on:-
- 8.10.1 the integrity of the statements.
 - 8.10.2 compliance with accounting and reporting standards and any change in accounting principles, policies and practices;
 - 8.10.3 significant accounting or disclosure issues and major areas requiring the exercise of judgement on the financial aspects of the report and accounts, taking into account the views of the external auditor;
 - 8.10.4 completeness and fairness of disclosures, including clarity of disclosure and the context in which statements are made;
 - 8.10.5 significant adjustments proposed or made resulting from the audit including any major questions raised by the external auditors with Executive Management and replies received;
 - 8.10.6 significant fluctuations in accounting figures or ratios;
 - 8.10.7 post balance sheet events;
 - 8.10.8 the going concern assumption and statement to be made pursuant to the UK Corporate Governance Code (the "Code") in the annual report and accounts;
 - 8.10.9 the viability statement to be made pursuant to the Code in the annual report and accounts
 - 8.10.10 compliance with existing FCA UKLA and legal requirements;
 - 8.10.11 presentation of a fair, balanced and understandable assessment of the Company's financial position;
 - 8.10.12 the extent to which the financial statements are affected by any unusual transactions, and the methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.10.13 any outstanding or prospective material litigation and other contingent liabilities;
 - 8.10.14 all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it related to the audit and risk management); and
 - 8.10.15 any areas of dissatisfaction with any aspect of the proposed financial reporting by the Company.

- 8.11 To discuss issues and recommendations arising from the audit, and any matters the external auditors may wish to discuss (in the absence, where requested by the Committee, of executive members of the Board and other persons invited to attend meetings of the Committee but who are not members of the Committee). Including:
- 8.11.1 all significant audit and accounting matters, including items of judgement;
 - 8.11.2 any significant areas where their audit work or review is incomplete;
 - 8.11.3 any areas of disagreement between the auditors and the executive management, resolved or otherwise;
 - 8.11.4 the level of cooperation received and any restrictions on the auditors' work; and
 - 8.11.5 their conclusions and major recommendations.

Narrative Reporting

- 8.12 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.

Internal Control and Risk Assessment

- 8.13 The Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, reporting and management of risk.
- 8.14 To review the report to be made by the Company in its Annual Report and Accounts on risk management and internal control systems prior to endorsement by the Board and generally to keep under review the effectiveness of internal control systems, including financial, operational and compliance controls. This will involve:
- 8.14.1 reviewing the internal controls and risk analysis together with the mitigation plans;
 - 8.14.2 reviewing management's representations on the effectiveness of risk management across the Group; and
 - 8.14.3 reviewing reports on internal audit's review of the effectiveness of risk management.
- 8.15 The Committee shall receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by operational and external auditors.

Internal audit

- 8.16 To review the internal audit programme, the effectiveness of the function, consider the major findings of internal audit reviews and management response, and ensure co-ordination between the operational and external auditors within the overall context of the Company's risk management system.
- 8.17 The Committee shall consider and make recommendations to the Board on the appointment and re-appointment of the internal auditors and any question of their

resignation or dismissal. The Committee should approve the appointment or termination of appointment of the head of internal audit.

- 8.18 The Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate free from management and other restrictions, and is equipped to perform in accordance with appropriate professional standards for the internal auditors.
- 8.19 The Committee shall review and assess the annual internal audit plan.
- 8.20 The Committee shall review reports addressed to the Committee from the internal auditors. The Committee shall receive a report on the results of the internal auditor's work on a periodic basis.
- 8.21 The Committee shall review and monitor management's responsiveness to the findings and recommendations of the internal auditors.
- 8.22 The Committee shall meet the head of the internal auditors at least once a year, without management being present, to discuss their remit and any issues arising from the internal audit carried out. In addition, the internal auditor shall be given the right of direct access to the Chairman of the Board and to the Committee and is accountable to the Committee.

Compliance, Whistleblowing and Fraud

The Committee shall:

- 8.23 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. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
 - 8.23.1 review the company's procedures for detecting fraud
 - 8.23.2 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance

9. Authority

- 9.1 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 9.2 The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 9.3 In connection with the performance of its duties, the Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of external professional advisers at its meetings if it considers this necessary. The costs in relation to obtaining such advice shall be borne by the Company. The Committee will be provided with sufficient resources to undertake its duties including the services of the Company Secretary.
- 9.4 The Committee is authorised 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.

10. Minutes

- 10.1 The Company Secretary shall ensure that a written record is kept of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee.
- 10.2 The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Committee (including the Chairman of the Committee) and once they have been approved by the Committee, to the external auditors. Members of the Board not serving on the Committee will be sent the agenda and minutes of Committee meetings once they have been approved by the Committee unless it would be inappropriate to do so due to conflicts of interest or for any other reason.

11. Accountability to Shareholders and Reporting Responsibilities

- 11.1 The Committee has a major role in formulating the various statements made on accounting and audit matters in the Company's Annual Report and Accounts. The Committee's role and activities during the year shall be described in the Annual Report and Accounts. This 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.
- 11.2 The Chairman of the Committee, or, in his absence, an appointed deputy, shall attend the Company's Annual General Meeting to answer shareholders' questions on the Committee's activities and matters within the scope of the Committee's responsibilities.
- 11.3 The Chairman of the Committee 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:
 - 11.3.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.10) and how these were addressed;
 - 11.3.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - 11.3.3 any other issues on which the Board has requested the Committee's opinion.

12. Other Matters

The Committee shall:

- 12.1 consider other topics as notified from time to time by the Board or individual members of the Board.
- 12.2 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance.
- 12.3 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 any other applicable Rules, as appropriate.

- 12.4 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.
- 12.5 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.

APPENDIX:

Auditors Independence

1. Permitted Audit and Audit Related Services

These are services where the group can employ Deloitte LLP without reference to the Audit Committee. The tick indicates current usage in this area and the asterisk that the service is included within the basic audit fee. On those items not included in the basic audit fee amounts billed in total have been less than £100,000 per annum.

1. Statutory Audit √ *
2. Advice on preparation of finance information and application of GAAP √ *
3. Accountants reports and comfort letters in connection with share holder circulars etc. √
4. Audit of completion accounts √
5. Regular advice on tax matters and recent tax developments √
6. Accounting advice on determination of tax provision for the accounts √ *

2. Permitted in Certain Circumstances

It is proposed that these services would only be provided after agreement with the Chairman of the Audit Committee where fees are less than £250k or with the total Audit Committee where the fees are anticipated to be greater than this. A tender process would be held where appropriate, e.g. where fees are expected to exceed £250k.

1. Due Diligence and Related Advice (provided any potential conflict with vendors/purchaser or advisers is resolved).
2. Staff secondments (depending on nature of role)
3. Preparation of sales memoranda
4. IT and other controls reviews.
5. Support in preparing Group Manuals
6. Preparation of Tax Returns
7. Company secretarial support
8. Training support

3. Not Permitted at All

1. Internal Audit
2. Systems implementation
3. Book-keeping services and preparation of financial information
4. Processing payroll
5. Lead broker services

6. Preparation of accounting entries for tax
7. Participation in management
8. Training support for accounting and risk management
9. Advice in coordination of risk assessments, methodology and systems.