

## **AUTO TRADER GROUP PLC (the "Company")**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

These terms of reference for the Audit Committee have been adopted by the Board of Directors (the "Board") of Auto Trader Group plc (the "Company"). The Audit Committee (the "Committee") shall review and reassess these terms of reference annually and recommend any proposed changes to the Board for approval.

#### **1. PURPOSE**

- 1.1 The purpose of the Committee is to assist the Board in its oversight of:
  - (a) the integrity of the Company's financial statements, including the accounting and financial reporting process of the Company and audit of the Company's financial statements;
  - (b) the Company's compliance with legal and regulatory requirements;
  - (c) the external auditors' qualifications and independence; and
  - (d) the performance of the Company's internal and external auditors.
- 1.2 In fulfilling its purpose, the Committee shall maintain free and open communication with the Company's external auditors, internal auditors and management.

#### **2. DUTIES AND RESPONSIBILITIES**

- 2.1 In furtherance of this purpose, the Committee shall have the following duties and responsibilities for the Company, its major subsidiaries and its group as a whole (the "Group"):

##### General Review

- 2.2 To review major issues regarding accounting principles, policies, practices, and judgments and financial statement presentations, including:
  - (a) any significant changes to the Company's selection or application of accounting principles;
  - (b) the adequacy and effectiveness of the Company's internal controls;
  - (c) any special audit steps adopted in light of material control deficiencies; and
  - (d) the going concern assumption.
- 2.3 To review analyses prepared by management or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements of the Company.

### Financial Information Review

- 2.4 To monitor the integrity of the financial statements of the Company, including its annual and half year reports, results announcements, dividend proposals and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review summary financial judgments, significant financial returns to regulators and any financial information contained in certain other shareholder documents having regard to matters communicated to it by the auditor.
- 2.5 To discuss with management and the external auditors, the external auditors' judgments about the quality and appropriateness of the Company's accounting principles and underlying estimates in its financial statements.
- 2.6 To review the content of the Company's 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.
- 2.7 Where requested by the board, review the viability statement included in the Annual Report and provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

### Internal Controls

- 2.8 To monitor and review the effectiveness of the Company's outsourced and internal audit function. To review the internal audit programme, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.
- 2.9 To discuss with management and the external auditors the integrity of the Company's financial reporting processes and internal financial controls, including policies and guidelines with respect to risk assessment and risk management and the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- 2.10 To discuss periodically with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements and the adequacy and effectiveness of the Company's internal financial controls.
- 2.11 To discuss periodically with the Board:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarise and report financial data;

- (b) any significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses; and
  - (c) any fraud involving management or other employees who have a significant role in the Company's internal controls.
- 2.12 To review the external auditor's management letter and management's response.
- 2.13 To review, on an annual basis, all relationships between the external auditors and the Company, and to seek to ensure co-ordination between the external and internal auditors.

#### External Auditors

- 2.14 To make recommendations to the Board, for the Board to put to the shareholders for approval at a general meeting, in relation to the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, including the retention of the external auditors for any significant permissible non-audit engagement. The Committee may also take into account the opinions of management in its dealings with the external auditors.
- 2.15 To develop and implement policy on the engagement of the external auditor to supply non-audit services taking into account relevant ethical guidance and legal requirements relating to the provision of non-audit services. The policy statement for the provision of non-audit services is set out in the document entitled "The provision of non-audit services by the external audit firm".
- 2.16 The Committee shall 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 oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- 2.17 To evaluate annually the experience, qualifications, performance, objectivity and independence of the external auditors, including their lead partners. To ensure the regular rotation of the audit partners, as required by applicable laws, rules and regulations. The Committee may take into account relevant UK professional and regulatory requirements, the opinions of management and the internal auditors in its evaluation of the external auditors. The Committee will present its conclusions regarding the external auditor to the Board.
- 2.18 To satisfy 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.
- 2.19 To review with the external auditors any audit problems or difficulties, together with management's responses, including any restrictions on the

scope of the external auditors' activities or on access to requested information, and any significant disagreements with management.

- 2.20 To evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include risk of the withdrawal of the Company's present auditor from the market in that evaluation.
- 2.21 To discuss the results of the year-end audit of the Company with the external auditors and any other matters required to be communicated to the Committee by the external auditors under generally accepted accounting standards.
- 2.22 To discuss with the external auditors before the audit commences, the nature and scope of the audit.
- 2.23 To discuss with the external auditors the quality of the Company's financial personnel.

#### Legal Compliance and Complaints

- 2.24 To have access, at the Company's expense, to the Company's lawyers to discuss, as required, any legal matters that could have a significant impact on the Company's financial statements or the Company's compliance with applicable laws and regulations, any breaches of fiduciary duties, and inquiries received from regulators or governmental agencies.
- 2.25 To review with management and the external auditors any correspondence with regulators or governmental agencies and any published reports and employee complaints concerning financial matters which raise material issues regarding the Company's financial statements or accounting policies.
- 2.26 To establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters. The Company's whistle blowing procedures are set out in the document entitled "Whistleblowing Policy".
- 2.27 To investigate and address any reports of evidence of breaches of fiduciary duties.
- 2.28 To review the Company's procedures for detecting fraud.
- 2.29 To review the Company's system and controls for the prevention of bribery and receive reports on non-compliance.

#### Tax Compliance

- 2.30 To approve the framework of responsibilities and policies in regard to tax compliance, and ensure that appropriate people and procedures are in place for managing tax compliance risk.
- 2.31 To scrutinize, monitor and review the effectiveness of the Group's tax arrangements and ensure that the risks to tax compliance are properly

managed and enable returns to be prepared with an appropriate degree of confidence and compliance with tax legislation.

- 2.32 To review and authorise any tax structuring initiatives intended to result in a tax saving in excess of £1,000,000, or any tax enquiry, investigation or settlement likely to result in a tax cost in excess of £1,000,000.

#### Other Audit Committee Responsibilities

- 2.33 To approve the hiring of current or former employees of the Company's external auditors.
- 2.34 To conduct any investigation appropriate to fulfill its responsibilities with the authority to have direct access to the external auditors as well as any employee of the Company.
- 2.35 To keep abreast of new accounting and reporting standards, and give due consideration to laws and regulations, the provisions of UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
- 2.36 To consider and determine any proposal by management regarding the termination of the Company's contract with the outsourced internal audit resource.
- 2.37 To perform any other activities consistent with these terms of reference, as the Committee or the Board deems necessary or appropriate.

### **3. OUTSIDE ADVISORS**

The Committee, acting by majority vote, shall have the authority to retain, at the Company's expense, outside legal, accounting, or other advisors or experts it deems necessary to perform its duties. The Committee shall retain these advisors without seeking Board approval and shall have sole authority to approve related fees and retention terms. The Committee shall receive appropriate funding from the Company for payment of fees to outside advisors engaged by the Committee.

### **4. ANNUAL PERFORMANCE EVALUATION**

- 4.1 The Committee shall conduct an annual self-performance evaluation. The Committee shall report on its annual self-performance evaluation to the Board and recommend to the Board any improvements to these terms of reference it deems necessary.
- 4.2 To ensure the Committee remains up-to-date with developments, appropriate and timely training will be provided to the Committee from suitably qualified external advisers for new members and on an ongoing basis.

### **5. MEMBERSHIP AND INDEPENDENCE REQUIREMENTS**

- 5.1 The Committee shall consist of at least three (3) members. All Committee members shall be independent non-executive directors of the Company, have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and the audit committee as a whole shall have competence relevant to the sector in which the

Company operates. At least one (1) member shall have recent and relevant financial experience and a professional qualification from one of the professional accountancy bodies, either in the UK or elsewhere.

- 5.2 Committee members shall be appointed by the Board on the recommendation of the Nomination Committee, in consultation with the Committee Chairman (as defined below). The chairman of the board shall not be a member of the Committee. Each prospective Committee member shall carefully evaluate existing time demands before accepting Committee membership. No director may serve as a Committee member if such director serves on the audit committee of more than two (2) other public companies, unless the Board expressly determines that such service would not impair that director's ability to serve on the Committee. The Committee members may be removed, with or without cause, by a majority vote of the Board.
- 5.3 The Company Secretary or his or her nominee shall act as the secretary of the Committee (the "Committee Secretary").
- 5.4 Only members of the Committee and those entitled to attend as an observer have the right to attend Committee meetings. However, other individuals such as the Chief Executive, Finance Director, the Group Financial Controller, representatives of the internal and external auditors, other executive and independent directors may be invited to attend all or any part of any meeting, as and when appropriate.
- 5.5 The Committee shall include a committee chairman (the "Committee Chairman"). The Committee Chairman shall be appointed by the Board. The Committee Chairman shall be entitled to chair all regular sessions of the Committee and add topics to the agenda. In the event of a tied vote, if less than the entire Committee has voted on such matter, then such matter shall be voted on by the entire Committee. If a tie persists after the entire Committee has voted on the matter, then such matter shall be voted on by the independent members of the Board of Directors, with independence being determined in accordance with the UK Corporate Governance Code. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 5.6 Appointments to the Committee shall be for a period of three (3) years, which may be extendable by no more than two (2) additional three (3) year periods, provided that the director still meets the criteria for membership of the Committee.
- 5.7 If any member of the Committee is unable to act for any reason, the Committee Chairman (as defined below) may appoint any other independent non-executive director of the Company to act as his or her alternate.

## **6. MEETINGS**

- 6.1 The Committee shall meet, in person, at least three (3) times a year, or more frequently as circumstances dictate, and all Committee members shall strive to be present at all Committee meetings. The Committee meetings shall follow a set agenda established by the Committee.
- 6.2 Two (2) Committee members, acting in person, linked by telephone or video conference facilities or by proxy, shall constitute a quorum. 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.

- 6.3 To the extent practicable, a sufficient interval should be allowed between Committee meetings and meetings of the Board to allow any work arising from the Committee meeting to be carried out and reported to the Board, as appropriate.
- 6.4 The external or internal auditors may request a meeting if they consider that one is necessary.
- 6.5 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive, the Finance Director, the external audit lead partner and the internal audit lead director.
- 6.6 The Committee should meet separately, at least once a year, with the external auditors without executive Board members present, to discuss any matter that the Committee or any of these groups believes may warrant Committee attention.

## **7. NOTICE OF MEETINGS**

- 1.1 Meetings of the Committee shall be summoned by the Committee Secretary at the request of the Committee Chairman or at the request of external or internal auditors if they consider it necessary.
- 7.1 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 the attendees as appropriate, at the same time.

## **8. REPORTING PROCEDURES**

- 8.1 The Committee Secretary shall prepare and circulate the minutes of the meeting of the Committee to all members of the Committee and maintain a minute book containing minutes of meetings signed by the chair of the meeting.
- 8.2 The Committee shall report its actions and recommendations to the Board after each Committee meeting and, once agreed upon by the Committee, shall provide to the Board a copy of the minutes, unless in the opinion of the Committee Chairman it would be inappropriate to do so. This report shall include:
  - (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Committee's opinion.

- 8.3 To consider the major findings of internal investigations and management's response:
- (a) the Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
  - (b) the Committee shall compile a report on its activities to be included in the Company's annual report. The report should include:
    - (i) an explanation of how the Committee has addressed the effectiveness of the external audit process;
    - (ii) an explanation of how the Committee has assessed the quality of internal audit;
    - (iii) the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any tendering plans;
    - (iv) 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;
    - (v) the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review team; and where relevant, disclosures about the findings and the actions they and the auditors plan to take;
    - (vi) how the audit committee composition requirements have been addressed, and the names and qualifications of all members of the Committee during the period;
    - (vii) how the audit committee's performance evaluation has been conducted;
    - (viii) the Committee's policy for approval of non-audit services; and
    - (ix) all other information requirements set out in the UK Corporate Governance Code.
- 8.4 The Committee Chairman shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.
- 8.5 The terms of reference of the Committee will be made available on request from the Company Secretary.

## **9. AUTHORITY**

- 9.1 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.

- 9.2 In connection with its duties the Committee is authorised by the Board to obtain, at the company's expense, any outside legal or other professional advice.

**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; and
- 10.2 consider other matters as referred to the Committee by the Board.

As approved by the Board on 6 November 2018