

THERMAX LIMITED

Audit Committee Charter

1. Preamble

1.1 This Charter governs the operations of the Audit Committee. The Charter is subject to laws and listing regulations. Any provision of the Charter that reduces the effectiveness of such laws or regulations shall not prevail.

1.2 The Audit Committee (hereafter called “the Committee”) has been set up by the Board of Directors to assist it in the discharge of its oversight role in the areas specified hereafter. The Board has the right, subject to applicable laws and regulations, to modify this Charter, to dissolve the Committee or to supercede its actions. In all cases the Board shall take such decisions in a full meeting and shall minute such a decision, with reasons. In such cases the fact with reasons shall be disclosed in the annual board report to shareholders.

1.3 The Committee shall have at least three members of whom at least two third shall be independent directors, all shall be financially literate and of whom at least one shall be a financial expert. No executive director can be a member of the committee. The Company Secretary shall also be secretary to the Committee.

1.4 The Committee will elect its chairman from amongst its independent members.

2. Responsibilities

2.1 Primary Responsibilities-

The Committee shall primarily be responsible for the following –

2.1.1 Overseeing the processes that ensure the **integrity of financial statements** issued by management from time to time. For this purpose the expression “financial statements” shall include full form and summarised annual and interim financial statements for external users, management discussion and analysis reports, the directors’ responsibility statement in the Board Report, the details of the vigilance mechanism in the board report, the particulars of loans, guarantees & investments and the risk management policy and list of existential risks included in the annual report, press releases in respect of the foregoing and earnings guidance.

2.1.2 Overseeing the processes for **compliance with laws and regulations** to ensure their effectiveness.

2.1.3 Overseeing the process by which confidential or anonymous **complaints or information regarding financial or commercial matters** are received and acted upon. This includes the protection of whistle-blowers from victimization and the provision of access by whistle-blowers to the chairman of the Committee.

2.1.4 Approving, prior to their execution, **transactions with related parties** (as defined in the Companies Act, 2013), and any subsequent modifications. In according approval, the committee will consider the business needs for those transactions and the fairness of the terms at which they are proposed to be contracted. For this purpose, the Committee shall be entitled to rely on the

information and explanations submitted by management if it has no reason to doubt its completeness or accuracy. The committee shall also satisfy itself as to the **disclosure** of the transactions in the financial statements based on the work of the company's auditors and discussions with management.

2.1.5 Enquiring into reasons for any **default** by the company in honouring its **obligations to its creditors and members**, and recommending appropriate action to the Board.

2.1.6 Satisfy itself that the **remuneration, expense reimbursements and use of company assets by the chief executive and other senior executives** is in accord with their terms of employment and the company's rules and policies in that respect.

2.2 Enabling Responsibilities-

In order to discharge the above primary responsibilities the Committee shall also be responsible for the following –

2.2.1 Overseeing the quality of **internal accounting controls and other controls** relevant to its primary responsibilities. These include controls that ensure the prevention and detection of frauds and errors. The committee shall also make enquiries about the management's control consciousness and the quality of the control environment prevailing in the company. For this purpose the Committee shall consider the management letters issued by the external auditor and the reports of the internal auditor.

2.2.2 The Committee shall oversee the system for storage (including back-up), modification, retrieval, display, print-out and disposal of electronic accounting records.

2.2.3 Overseeing the quality of the **financial reporting process**, including the selection of the most appropriate of permitted **accounting policies**, the exercise of reasonable **judgment** where required and the use of the most appropriate **estimates**. It shall enquire into **unusual transactions**. It shall oversee appropriate **disclosure and presentation** of information in financial reports. It shall enquire into the **key risks** affecting the business including the risk of **fraudulent financial reporting**. It shall decide on the most appropriate treatment in the event of any **disagreements between external auditors and management**. The committee shall review all written **communication between the auditors and management**, including, inter alia, engagement letters, management representations to auditors and management letters from the auditors. The committee shall also review the **financial statements of subsidiary companies** to satisfy itself that management is managing group financial risks, that the intra group transactions are commensurate with business needs and that material investments and other assets of the subsidiaries are real.

2.2.4 The Committee shall be responsible for ensuring the **independence of the external auditor** from management influence. It shall annually appraise the **quality of the external audit**. Based on such appraisal it shall recommend to the board the **appointment and the remuneration of an auditor**, including any other terms, for the following year. All **commercial relationships with the audit firm** shall be pre - approved by the Committee. Management shall not initiate any discussion with the

audit firm for any business opportunity except with the approval of the Committee. The Committee shall set **rules for the hiring of any current or former employee of the audit firm**. The Committee shall make such enquiries as are necessary regarding the independence of the audit firm. For this purpose, the expression “audit firm” shall include its partners, senior employees and associate entities. The Committee shall decide the best structure for audit of the company, including the need for branch or joint auditors.

2.2.5 The committee shall **scrutinize inter-corporate loans and investments** with the object of ascertaining if management has taken appropriate steps to protect their value and that they are appropriately reflected in the financial statements. The Committee shall also review these in respect of its subsidiary and joint venture companies.

2.2.6 The Committee will monitor the **end use of funds raised through public offers** and shall draw to the attention of the board significant deviations from the use as stated in the offer document.

2.2.7 The committee shall conduct the **valuation of any undertaking or asset** of the company where an independent valuation is required by law or regulation or where such a valuation is necessary for incorporation in the financial statements. For this purpose it shall decide the agency that shall undertake the valuation as also the terms of appointment and the remuneration payable.

2.2.8 The Committee shall oversee the **internal audit function**. It shall approve the individual chosen for **appointment as the chief internal auditor** prior to the approval of the board.. It shall make the final decision regarding **his compensation and promotion as well as his dismissal** from service or his **movement to other departments**. The internal audit department’s employees shall be protected by the Committee from **inappropriate management influence**. The Committee shall approve the **internal audit charter** and shall annually review it. The Committee shall approve the **annual plan of internal auditing** (including the scope, periodicity, functioning & methodology). It shall annually appraise the **quality of internal audit** and direct the action necessary from such an appraisal. The Committee shall satisfy itself that the internal audit function has adequate resources for the discharge of its responsibilities. The committee shall consider any investigation conducted by the internal auditors, or others appointed for the purpose, into suspected **fraud**. For each of the above, the Committee shall obtain and consider the opinion of the Chief Executive Officer and Chief Financial Officer before making a final decision, except where doing so would be prejudicial to the company’s interest. If an external firm is used to provide all or a part of internal audit services, the Committee shall select and annually appraise the performance of that firm in consultation with the company’s chief internal auditor and management. Other provisions of 2.2.3 & 2.2.4 as appropriate for such an arrangement shall also apply to the Committee’s responsibilities.

2.2.9 The Committee shall bring to the notice of the board any lacunae in the **code of conduct** of the company.

2.2.10 The committee shall review with the **CEO and the CFO** of the company the underlying process followed by them in their **annual certification to the Board** of Directors of matters related to financial statements, legitimacy of transactions, internal controls and other matters as required to be certified to the Board by them under laws and regulations.

2.2.11 The Committee shall approve the **appointment of the CFO**.

2.2.12 The committee shall recommend to the board the appointment and remuneration of the secretarial and cost auditors.

2.3 Resources to the Committee-

The Committee shall discharge its oversight responsibilities by considering reports from management, both auditors and other consultants as it deems necessary. The Committee shall take such steps as are reasonable in the circumstances to ensure the reliability of the reports it is depending upon.

The Committee is not expected to itself undertake any audit, evaluation, appraisal, investigation or other similar activities in the discharge of its responsibilities.

2.4 Management Responsibilities-

Management is responsible for preparing and issuing reliable financial statements and other reports. Management is also responsible for implementing and maintaining reliable systems, processes and controls for ensuring the integrity of financial reporting, the prevention and detection of fraud, the compliance with laws and regulations, the compliance by management personnel with their terms of employment and the company's policies, the meeting of creditor & member obligations, compliance with the codes of ethics & conduct and the effective management of enterprise risks. Management is also responsible for the fair terms of transactions with related parties and for their business propriety. The Committee's role in these areas does not make it responsible for any lacunae or errors in them. The Committee's responsibility, when it is informed of such lacunae or errors, is to initiate appropriate action by directing management and reporting to the Board if action is not initiated by management. The Committee is not expected to audit the financial reports or to design systems, processes and controls or to investigate into transactions.

Management shall implement the Committee's directions in respect of the foregoing areas. Management has a right of appeal to the Board of Directors should it disagree with the Committee's directions.

2.5 Board of Directors Responsibilities –

The Board will be responsible for the approval of the Charter of the committee and any revisions of it, for the constitution of the committee in accord with laws and regulations, for the selection of a chair for the committee, for considering the reports and recommendations of the committee to it and for supporting the committee in its activities. Management has a right to appeal to the Board if it disagrees with any recommendations of the committee. The Board, after hearing management and considering the views of the committee, has the power to overrule the committee's recommendations; in which case the Board shall record its reasons and shall inform the shareholders of the same in the annual report or in the quarterly interim reports, as is appropriate.

Should the Board overrule the Committee on any matter, the reasons for such will be recorded and the fact conveyed to the shareholders in the quarterly, half-yearly or annual reports made to them.

2.6 Shareholders' Meetings -

The chair of the committee shall be present at all shareholders' meetings where the agenda includes the consideration of audited financial reports or the appointment or reappointment of auditors and it shall be his/her responsibility to respond to any questions relating to the audit opinion or to the appointment or reappointment of the auditors.

2.7 Coordination with other committees-

The committee shall coordinate with other committees to the extent that its work has a bearing on their scope of work. For example, the committee may consult the nominations & remuneration committee to discuss disclosures in the annual report of remuneration to directors and senior executives. In particular it shall coordinate with the risk management committee for the segregation of responsibilities for review of internal controls between those related to the financial statements closing process, the accounting processes, for the efficient and economic operations of the business and those of a strategic nature. The committees shall jointly determine annual internal audit work plan.

3. Powers

The Committee shall have the powers to –

3.1 **Call for any explanation, information, representation or confirmation** from any employee, director, auditor, vendor, customer or other stakeholder, confidentially or otherwise.

3.2 Examine and take into its custody any **record or document** of the Company.

3.3 Appoint **legal counsel, accountants or other advisors** at its sole discretion at the cost of the Company.

3.4 Investigate any activity within its terms of reference

3.5 Secure attendance of outsiders with relevant experience.

4. The Committee's Processes

The Committee shall –

4.1 Annually **review this Charter** and recommend any changes it considers necessary to the Board.

4.2 **Ensure the independence of its members** from any management influence. For this purpose, a member's independence will be considered impaired if

4.2.1 it is so considered by the listing regulations or any laws;

4.2.2 the member has made recommendations to management in any of the areas for which the Committee is responsible, other than when acting as a member of the Committee;

4.2.3 the member has advocated management's opinion or interests other than when acting as a member of the Board;

4.2.4 the member has put himself in a position subservient to management;

4.2.5 the member has accepted any gifts or favours from management; or

For this purpose, the expression “management” shall include all employees, their immediate relatives and entities controlled by them.

4.3 **Appraise its performance** annually and report to the Board the outcome thereof.

4.4 Hold separate, **private meetings** with both auditors and with management.

4.5 The members of the Committee shall receive **exposure to developments** in accounting standards, laws and regulations and other relevant disciplines to enable them to discharge their responsibilities on the Committee. The Committee shall periodically review the process and level of such exposure and make any modifications it deems necessary.