

THERMAX LIMITED

AUDIT COMMITTEE CHARTER

Audit Committee Charter

1. PREAMBLE

- 1.1 This Charter governs the operations of the Audit Committee. The Charter is subject to SEBI Listing Regulations and other applicable laws. In case of any inconsistency between the laws or regulations in force and the Charter, the laws and regulations shall 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 supersede its actions.
- 1.3 The Committee shall have at least three Directors as members of whom at least two-thirds shall be independent directors, all shall be financially literate and at least one shall have accounting or related financial management expertise. The Company Secretary shall also be secretary to the Committee. The CFO will assist the Committee in its work.
- 1.4 The Committee will elect its chairperson 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 summarized annual and interim financial statements for external users, management discussion and analysis reports, board reports (including the directors’ responsibility statement), Business Responsibility and Sustainability Report (BRSR) including BRSR Core, the details of the vigilance mechanism in the Board Report’s and the particulars of loans, guarantees & investments included in the Annual Report, press releases in respect of the foregoing and earnings guidance.
- 2.1.2 To evaluate the adequacy and effectiveness of internal financial controls, and risk management systems in co-ordination with the Risk Management Committee.
- 2.1.3 The committee will examine and convey to the Board its views on rationale, cost benefits and impact of reorganization schemes involving mergers, demergers and amalgamation within the Thermax Group of companies or with any other entity to the extent and as required by regulations.

- 2.1.4 Overseeing the processes for compliance with laws and regulations relating to financial statements to ensure their effectiveness.
- 2.1.5 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 Chairperson of the Committee, in accordance with the Whistleblower Policy of the Company.
- 2.1.6 Approving, prior to their execution, **transactions with related parties** (as required under relevant legislations), and any subsequent modifications. In according its 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.
- 2.1.7 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.

2.2 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, 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 management representations to auditors and management letters and letters of internal control weaknesses received 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 material investments and other assets of the subsidiaries.

- 2.2.4 The Committee shall be responsible for making recommendations to the Board for appointment and remuneration of **external auditor** and ensuring the auditor's **independence** from management influence. It shall annually appraise the **quality of the external audit**. 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 non- audit 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 audit committee shall appoint an independent Registered Valuer to undertake the valuation of any asset or liability or undertaking or net worth of the company wherever valuation is required by the Companies Act and Rules thereunder. For this purpose, it shall decide the agency that shall undertake the valuation as also the terms of appointment and the remuneration payable. The valuation opinion of any asset or undertaking shall be concurred with by the audit committee. The audit committee shall not be concerned with any other valuation that the management or the board may require, unless specifically so required by the latter.

The audit committee shall ensure compliance with all provisions of the Companies Act, the rules and SEBI Listing Obligations and Disclosure Requirements, when discharging its responsibilities and exercising its powers under this Charter. As these are constantly changing the CFO and the Secretary shall take care to draw the Committee's attention

to them when necessary.

The Committee shall oversee the **internal audit function**. It shall recommend 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 periodically 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.

- 2.2.8 The Committee shall bring to the notice of the board any lacunae in the **code of conduct** of the company.
- 2.2.9 The Committee shall annually review compliance with Company's insider trading policy.
- 2.2.10 Review, in conjunction with legal counsel, any legal matters that could have a significant impact on the Company's financial statements.
- 2.2.11 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.
- 2.2.12 The Committee shall approve the **appointment of the CFO**.
- 2.2.13 The committee shall recommend to the board the appointment and the 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, 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 solely responsible for preparing and issuing reliable financial statements and other reports. Management is also solely 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 obligations to creditors & members, 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.

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 accordance with laws and regulations, 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.

2.6 Shareholders' Meetings -

The chairperson of the committee shall be present at the general meetings of the Company to answer shareholder queries.

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.

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 **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.
- 3.5 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 Annual Report.

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 **appraise its performance** annually and report to the Board the outcome thereof;
- 4.3 hold separate, **private meetings** with both auditors and with management.
- 4.4 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 as it deems necessary.
- 4.5 The Committee shall report regularly to the Board with respect to the Committee's activities and receive feedback and directions from the Board on such activities. Committee reports shall include any significant 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, the performance of the internal audit function or the performance and independence of the Company’s independent auditor, as applicable, after review with the management, with recommendations being made to the Board by the Committee as appropriate.

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