

**Grafton Group plc**  
**("the Company"; "the Group")**

**Terms of Reference – Audit and Risk Committee ("the Committee")**

**1. Membership**

- 1.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit and Risk Committee. The Committee shall be made up of at least three members.
- 1.2. All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.
- 1.3. The Committee as a whole shall have competence relevant to the sectors in which the Group operates.
- 1.4. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman, Chief Executive Officer, Chief Financial Officer, other directors and the Head of Internal Audit may be invited to attend all or part of any meeting as and when appropriate.
- 1.5. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.6. 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.
- 1.7. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman the remaining members present shall elect one of themselves to chair the meeting.

**2. Secretary**

- 2.1. The Company Secretary or Deputy Company Secretary shall act as the Secretary of the Committee.

**3. Quorum**

- 3.1. The quorum necessary for the transaction of business 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. All or any members of the Committee may participate in a meeting by teleconference or videoconference. A person so participating is deemed to be present in person at the meeting and shall be counted in a quorum accordingly.

#### **4. Notice**

4.1 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 and any other person required to attend generally no later than five working days before the date of the meeting, or such shorter period as agreed by the Chairman of the Committee from time to time. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

#### **5. Meetings**

5.1. The Committee shall meet four times a year to coincide with key dates in the Group's Financial Reporting Cycle and otherwise as required.

5.2 Meetings will be held in Ireland unless otherwise agreed in advance by the Committee.

5.3. The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee.

5.4. Minutes of Committee meetings shall be circulated to all members of the Committee and to all members of the Board.

#### **6. Annual General Meeting**

6.1. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

#### **7. Duties**

The Committee shall carry out the duties below for the Group as a whole.

##### **7.1. Financial Reporting**

7.1.1 The Committee shall monitor the integrity of the financial statements of the

Group, including its Annual Reports, Interim Results, Preliminary Results Announcements and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review any financial information contained in certain other documents, including announcements of a price sensitive nature.

7.1.2 The Committee shall review and challenge where necessary:

- 7.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- 7.1.2.2 matters requiring a major element of judgement;
- 7.1.2.3 the methods used to account for significant or unusual transactions where different approaches are possible;
- 7.1.2.4 whether the Group has followed appropriate accounting standards and made appropriate estimates taking into account the views of the external auditor;
- 7.1.2.5 the clarity of disclosure in the Group's financial reports and the context in which statements are made; and
- 7.1.2.6 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.1.3 Where requested by the Board, the Committee should provide advice on 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 Group's position and performance, business model and strategy.

## **7.2. Internal Controls and Risk Management Systems**

The Committee shall:

- 7.2.1 review the Group's internal financial controls and internal control and risk management systems;
- 7.2.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

## **7.3 Whistleblowing and Fraud**

7.3.1 The Committee shall review the Group's arrangements for its employees 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.

7.3.2 The Committee shall review the Group's procedures for detecting fraud.

7.3.3 The Committee shall review the Group's systems and controls for the prevention of bribery.

#### **7.4 Internal Audit**

The Committee shall:

7.4.1 monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management systems;

7.4.2 approve the appointment and removal of the Group Internal Audit and Business Risk Director;

7.4.3 consider and approve the remit of the internal function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

7.4.4 review and assess the annual internal audit plan;

7.4.5 review summaries of reports prepared by the internal audit function;

7.4.6 review and monitor management's responsiveness to internal audit findings and recommendations; and

7.4.7 meet the Group Internal Audit and Business Risk Director at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Group Internal Audit and Business Risk Director shall be given the right of direct access to the Chairman of the Board and to the Committee.

#### **7.5 External Audit**

The Committee shall:

7.5.1 Conduct the tender process and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditor and approve the remuneration and terms of engagement of

the external auditor. If an external auditor resigns the Committee shall investigate the issues leading to the resignation and report to the Board on any improvement or action required;

7.5.2 oversee the relationship with the external auditor including (but not limited to):

7.5.2.1 consideration of their remuneration fees for audit and non-audit services;

7.5.2.2 approval of the terms of engagement including any engagement letter issued at the start of each audit and the scope of such audit;

7.5.2.3 reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the external audit process, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

7.5.3 meet with the external auditor at the planning stage before the audit, after the audit at the reporting stage and following the auditors review of the Interim Results. The Committee shall meet the external auditor without management present to discuss their remit and any issues arising from the audit;

7.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

7.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to a discussion of any major issues which arose during the audit and any accounting and audit judgements;

7.5.6 review the effectiveness of the audit.

7.5.7 review the management letter issues and management's response to the auditor's findings and recommendations.

7.5.8 developing and implementing a policy on the engagement of the external auditor to supply non-audit services, ensuring that there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required.

7.5.9 The Committee shall ensure that at least once every ten years the audit services contract is put out to tender.

## **8. Risk**

The Committee shall;

- 8.1.1. oversee the effectiveness of the risk management procedures in place and the steps being taken to mitigate the Group's risks.
- 8.1.2. review the design, completeness and effectiveness of the risk management framework relative to the Group's activities.
- 8.1.3. satisfy itself that risk-based information (including economical capital requirements, returns on capital and stress testing) is used effectively by management and the Board.
- 8.1.4. ensure a due diligence appraisal of strategic or significant transactions due to be proposed to the Board incorporate a risk review.
- 8.1.5. in relation to risk assessment:
  - 8.1.5.1. keep under review the Group's overall risk assessment processes that inform the Board's decisions;
  - 8.1.5.2. review regularly and approve the parameters used and the methodology adopted; and
  - 8.1.5.3. monitor large exposures and certain risk types of critical importance.
- 8.1.6. review the Group's capability to identify and manage new risks.
- 8.1.7. review reports on any material breaches of risk limits and the adequacy of proposed action.
- 8.1.8. keep under review the effectiveness of the Group's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the Annual Report concerning internal controls and risk management.
- 8.1.9. consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively.

## **9. Reporting Responsibilities**

- 9.1. The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

- 9.2. The Committee shall make whatever recommendations to the Board it deems appropriate.
- 9.3. The Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 9.4. The Committee shall compile a report to its shareholders on its activities to be included in the Group's Annual Report. This report shall include:
  - 9.4.1 the significant issues that it considered in relation to the financial statements, and how these issues were addressed;
  - 9.4.2 an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - 9.4.3 in the case of a Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position;
  - 9.4.3 an explanation of how auditor objectivity and independence are safeguarded if the external auditor provides non-audit services.

## **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;
- 10.2. give due consideration to laws and regulations, the provisions of The UK Corporate Governance Code and the requirements of the relevant Listing Authority's Listing Rules as appropriate;
- 10.3 undertake other related duties as agreed with the Board;

- 10.4. periodically, 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:

- 11.1. to seek any information it requires from any employee of the Group in order to perform its duties;
- 11.2. to obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 11.3. to call any employee to be questioned at a meeting of the Committee as and when required.