

HENRY BOOT PLC

TERMS OF REFERENCE OF THE AUDIT & RISK COMMITTEE

1. Definitions

In these terms of reference:

“**Board**” means the board of directors of the Company;

“**Code**” means the UK Corporate Governance Code as revised in April 2016 (or as further updated or reissued from time to time);

“**Committee**” means the Audit & Risk Committee of the Board;

“**Company**” means Henry Boot PLC; and

“**Group**” means the Company and its subsidiary undertakings from time to time.

2. Introduction

The purpose of the Committee is to provide an independent review and oversight of the Company’s financial reporting processes, internal controls, risk appetite and management and the internal and external auditors. It provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns.

By effectively carrying out its functions and responsibilities, the Committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices and internal controls, and that the outside auditors, through their own review, objectively assess the Company’s financial reporting practices. See “Duties” below for more information.

3. Membership

The Committee shall comprise at least 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 Committee.

3.1 All members of the Committee shall be independent Non-executive directors, at least one of whom shall have relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.

3.2 Only members of the Committee have the right to attend Committee meetings. However, the external auditor, internal auditor, Executive Directors, Non-executive Directors and the Company Secretary will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

3.3 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

4. **Secretary**

The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

5. **Quorum**

The quorum necessary for the transaction of business shall be two members; being independent Non-executive Directors.

6. **Frequency of meetings**

6.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

6.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Chief Executive Officer, the Group Finance Director and the external audit lead partner.

7. **Notice of meetings**

7.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.

7.2 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 five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

8. **Minutes of meetings**

8.1 The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

8.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless in the opinion of the Committee Chairman, it would be inappropriate to do so.

9. **Annual General Meeting**

The Committee Chairman should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities.

10. Duties

The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the Parent Company, major subsidiary undertakings and the Group as a whole, as appropriate.

10.1 Financial reporting

10.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance, review and report to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

10.1.2 In particular, the Committee shall review and challenge where necessary:

10.1.2.1 the application of significant accounting policies and any changes to them;

10.1.2.2 the qualifications or assumptions made in support of the going concern statement and the viability statement taking in to account the Company's current position and principal risks;

10.1.2.3 the methods used to account for significant or unusual transactions where different approaches are possible;

10.1.2.4 whether the Company has adopted appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements; and

10.1.2.5 all material information presented with the financial statements, such as the strategic review and the corporate governance statements relating to the audit and to risk management.

10.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

10.2 Narrative reporting

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 and whether it informs the Board's statement in the annual report on these matters that is required under the Code.

10.3 Internal controls and risk management systems

The Committee shall:

- 10.3.1 keep under review the Company's internal financial controls that identify, assess, manage and monitor financial risks, and other internal control systems;
- 10.3.2 where requested by the Board, advise on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment;
- 10.3.3 where requested by the Board, identify and advise on the principal risks facing the Company including the management and mitigation of those risks;
- 10.3.4 monitor the Company's risk management systems and, at least annually, carry out a review of their effectiveness;
- 10.3.5 before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions where appropriate, including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Company, and taking independent external advice where appropriate and available; and
- 10.3.6 review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement.

10.4 **Compliance, whistleblowing and fraud**

The Committee shall:

- 10.4.1 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;
- 10.4.2 review the Company's procedures for detecting fraud;
- 10.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

10.5 **Internal Audit**

The Committee shall:

- 10.5.1 keep under review the need for an Internal Audit Function and record its decision and the reasons for it;
- 10.5.2 if an Internal Auditor is appointed then:
 - 10.5.2.1 approve the appointment or termination of appointment of the Head of Internal Audit (whether via an internal or external appointment);
 - 10.5.2.2 review and approve the role and mandate of the Internal Audit Function, monitor and review the effectiveness of its work and annually approve the internal audit mandate

ensuring it is appropriate for the current needs of the organisation;

- 10.5.2.3 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, providing independence from the Executive and accountability to the Committee;
- 10.5.2.4 review and assess the annual internal audit plan to ensure it is aligned with the key risks of the business, and receive regular reports on work carried out;
- 10.5.2.5 ensure the internal audit function has the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 10.5.2.6 carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
 - (a) review the actions taken by management to implement the internal auditor's findings and recommendations and to support the working of the internal audit function;
 - (b) meet with the head of internal audit at least once a year without the presence of management to discuss the effectiveness of the function;
 - (c) review and assess the annual internal audit work plan;
 - (d) receive a report on the internal auditor's work;
 - (e) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
- 10.5.2.7 monitor and assess the role and effectiveness of the Company's internal audit function in the overall context of the Company's risk management system and the work of finance and the external auditor; And
- 10.5.2.8 consider whether an independent, third party review of processes is appropriate.

10.6 External Audit

The Committee shall:

- 10.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of the Company's external auditor;

- 10.6.2 ensure that at least once every ten years the external 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 external auditor with those of other audit firms; and in respect of such tender develop and oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 10.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.6.4 oversee the relationship with the external auditor including (but not limited to):
 - 10.6.4.1 approval of their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 10.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 10.6.4.3 assessing annually their independence and objectivity taking into account relevant UK law, regulation, the FRC's Ethical Standard and other professional requirements and the group's relationship with the external auditor as a whole, including any threats to the external auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
 - 10.6.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
 - 10.6.4.5 agreeing with the Board a policy on the employment of former employees of the Company's external auditor, taking into account the FRC's Ethical Standard, and monitoring the implementation of this policy;
 - 10.6.4.6 monitoring the external auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the FRC's Ethical Standard, including the guidance on the rotation of audit partner and staff,
 - 10.6.4.7 monitoring the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the FRC's Ethical Standard;
 - 10.6.4.8 assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the

- external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 10.6.4.9 seeking to ensure co-ordination of the external audit with the activities of the internal audit function;
 - 10.6.4.10 evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee; and
 - 10.6.4.11 developing and recommending to the Board the company's formal policy on the provision of non-audit services by the external auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - (a) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (b) the nature of the non-audit services;
 - (c) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (d) the fees for the non-audit services, both individually and in aggregate; relative to the audit fee; and
 - (e) the criteria governing compensation.
- 10.6.5 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- 10.6.6 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 10.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 10.6.7.1 a discussion of any major issues which arose during the audit;
 - 10.6.7.2 the external auditor's explanation of how the risks to audit quality were addressed;
 - 10.6.7.3 key accounting and audit judgements;
 - 10.6.7.4 the external auditor's view of their interactions with senior management;
 - 10.6.7.5 levels of errors identified during the audit;
 - 10.6.7.6 a review of any representation letter(s) requested by the external auditor before they are signed by management;

- 10.6.7.7 a review of the management letter and management's response to the external auditor's findings and recommendations; and
 - 10.6.7.8 a review of the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.
- 10.7 The Committee should review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

11. Reporting responsibilities

- 11.1 The Committee Chairman shall report 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:
- 11.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 10.1.1) and how these were addressed;
 - 11.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 10.6.4.8) on the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 11.1.3 any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall compile a report on its activities to be included in the Company's annual report. The 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.
- 11.4 In the compiling the reports referred to in 11.1 and 11.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

12. Other matters

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 12.2 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;
- 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 oversee any investigation of activities which are within its terms of reference;
- 12.5 work and liaise as necessary with all other Board Committees;
- 12.6 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.

13. **Authority**

The Committee is authorised by the Board to:

- 13.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 13.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so, including, where it has been agreed that one shall be appointed, the cost of appointment of any internal auditor;
- 13.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 13.4 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.