

## Appendix 1

### Balfour Beatty plc

("Company")

### Audit & Risk Committee ("Committee")

## TERMS OF REFERENCE

### 1. Membership

- 1.1 The Committee shall be appointed by the Board and its membership shall be as set out in the Board Committee Membership Schedule (as amended from time to time).
- 1.2 All members of the Committee shall be independent Non-Executive Directors of the Company, appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chair of the Committee, at least one of whom shall have recent and relevant financial experience, and the Committee as a whole shall have competence relevant to the sector in which the Company operates. The Committee shall comprise of not less than three members. The Chair of the Board shall not be a member of the Committee.
- 1.3 The Chief Financial Officer, the Group Risk and Audit Director and representatives of the external auditors shall normally attend at the invitation of the Committee.
- 1.4 Other Board members and employees may attend if invited by the Chair of the Committee.
- 1.5 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 1.6 The Board shall appoint the Chair of the Committee who shall be an independent Non-Executive Director. In the absence of the Chair of the Committee and/or appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### 2. Secretary

The Secretary of the Company (or their nominee) will act as the Secretary of the Committee.

### 3. Quorum

The quorum necessary for the transaction of business shall be two members of the Committee.

### 4. Frequency of Meetings

- 4.1 Meetings shall be held not less than four times each year and at such other times as the Chair of the Committee shall deem necessary.

4.2 At least once a year the Committee shall meet separately with the external auditors, the Chief Financial Officer and with the Group Risk and Audit Director without Management present.

4.3 The external auditors, the Chief Financial Officer and Group Risk and Audit Director shall each have the right to request such meetings (paragraph 4.2) at any time if they consider them necessary.

5. **Notice of Meetings**

5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Chair of the Committee or any of its members, or at the request of the Chief Financial Officer, external audit lead partner, or Group Risk and Audit Director.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be provided to each member of the Committee and any other person invited or required to attend no fewer than three working days (if practicable) prior to the date of the meeting. Supporting papers shall be sent to members of the Committee and to other attendees as appropriate, at the same time.

6. **Minutes of Meeting**

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

6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Chair shall ensure that, in the event of any conflicts of interest being noted, appropriate control measures are taken in the way such conflicts are managed at that meeting.

6.3 Minutes of the Committee meeting shall be circulated to the Committee, other attendees and to all members of the Board (unless a conflict of interest exists).

7. **Annual General Meeting**

The Chair of the Committee shall attend the Annual General Meeting of the Company and shall respond to any shareholder questions on the Committee's activities and responsibilities.

8. **Duties**

The Committee shall:

8.1 **Financial Reporting**

8.1.1 keep under review the form, content and process for the preparation of the Company's statutory accounts and other published financial information of the Company and the Group, including reviewing the Company's and the Group's accounting policies and its internal controls;

8.1.2 monitor the integrity of the half-year and annual financial statements of the Company

and any formal announcements relating to the Company's and the Group's financial performance, and any significant financial reporting judgements contained therein before submission to the Board, paying particular attention to:

- (i) critical accounting policies and practices, and any changes in them;
- (ii) decisions requiring significant elements of judgement or estimation;
- (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
- (iv) the clarity of disclosures;
- (v) significant adjustments resulting from the audit;
- (vi) the going concern and viability assumptions;
- (vii) compliance with accounting standards and, where estimates and judgements have been made by Management, these have taken into consideration the views of the external auditor;
- (viii) compliance with Financial Conduct Authority and other legal and regulatory requirements;
- (ix) any material information presented with the financial statements, such as the strategy report and the corporate governance statement (insofar as it relates to audit and risk management);
- (x) the impact of the funding position of the Balfour Beatty Pension Fund or other Group pension schemes; and,
- (xi) any conflicts of interest or related party transactions.

## 8.2 Internal controls and risk management systems

- 8.2.1 review the content of the annual report and accounts (including the Group's principal risks and statements of the Group's internal controls and risk management framework) 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, risk profile, business model and strategy;
- 8.2.2 review the adequacy and effectiveness of the Group's internal controls including the systems established to identify, assess, manage and monitor risks and receive reports from Management on the effectiveness of these, including the conclusions of any testing carried out by internal or external auditors and other assurance providers;
- 8.2.3 oversee and advise the Board on the Company's and the Group's current risk exposures and future strategy for managing such risks;

### 8.3 Compliance, whistleblowing and fraud

8.3.1 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;

8.3.2 review the company's procedures for detecting fraud;

8.3.3 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance;

### 8.4 Climate metrics reporting

8.4.1 review and challenge where necessary the action and judgements of management in relation to climate metrics included as part of climate-related disclosures;

### 8.5 Internal audit

8.5.1 monitor and review the effectiveness of the Company's and the Group's internal audit function;

8.5.2 approve the appointment or removal of the Group Risk and Audit Director;

8.5.3 review and approve the terms of reference of the internal audit function;

8.5.4 ensure that the function has the necessary resources and access to information to fulfil its mandate; review and assess the annual internal audit work plan;

8.5.5 receive periodic reports on the results of the work of the Group Risk and Audit Director;

8.5.6 review and monitor Management's responsiveness to their respective findings and recommendations; and meet the Group Risk and Audit 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, they shall be given the right of direct access to the Chair of the Board and to the Chair of the Committee;

### 8.6 External auditor

8.6.1 make recommendations for the Board to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor, after assessing annually the qualifications, expertise and resources, and independence, effectiveness and objectivity of the external auditor and the effectiveness of the audit process, taking into account relevant UK professional and regulatory requirements;

8.6.2 meet regularly with the external auditor, including once at the planning stage before the audit and once at the reporting stage. The Committee shall review and approve the

annual external audit plan and ensure that it is consistent with the scope of the audit engagement and shall review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:

- (i) a discussion of any major issues which arose during the audit;
- (ii) key accounting and audit judgements; and
- (iii) levels of errors identified during the audit;

8.6.3 the Committee shall also meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

8.6.4 develop and implement the Company's policy on the engagement of the external auditor to supply non-audit services, including prior approval by the Committee of non-audit services and specifying the types of non-audit service to be pre-approved, taking into account relevant regulations and ethical guidance regarding the provision of non-audit services by the external auditor and assessing whether non-audit services have a direct material effect on the audited financial statements; and to report to the Board identifying any matters in respect of which it considers action or improvement is needed (particularly considering the impact this may have on the external auditor's independence) and making recommendations as to the steps to be taken;

8.6.5 make recommendations to the Board regarding the remuneration and terms of engagement of the external auditor and ensure that key individuals within the appointed firm are rotated from time to time;

8.6.6 review the representation letter prepared by the external auditor and Management's response;

8.6.7 review the Management letters and Management's response to the external auditor's findings and recommendations;

8.6.8 agree a policy on the employment of former employees of the external auditor, and monitor the implementation of this policy;

8.6.9 develop and implement the policy for external audit tendering at least every ten years in accordance with corporate governance practice and for regulatory requirements.

## **8.7 Other**

8.7.1 review Directors' expenses and benefits;

8.7.2 review, on behalf of the Board, the statement in the Company's Annual Report and Accounts concerning internal controls and risk management and on whether the Company's Annual Report and Accounts, taken as a whole, is "fair balanced and understandable" and provides the information necessary for shareholders to assess the

Company's position and performance, business model and strategy;

- 8.7.3 consider other topics as defined by the Board; and,
- 8.7.4 give due consideration to laws and regulations, including the general duties of Directors set out in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules, as appropriate.

## 9. **Reporting Procedures**

- 9.1 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall at least once a year, review its own performance, constitution, and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board.
- 9.3 The Committee shall produce an annual report of the Committee's duties and activities during the year, which will form part of the Company's Annual Report and Accounts, which shall describe among other things:
  - 9.3.1 the significant issues that the Committee considered relating to the financial statements, and how these issues were addressed, having regard to matters communicated to it by the auditor;
  - 9.3.2 an explanation on how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or the 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;
  - 9.3.3 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 recommendations and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);
  - 9.3.4 where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and
  - 9.3.5 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services.

## 10. **Authority and Resource**

- 10.1 The Committee is authorised by the Board to:
- 10.1.1 investigate, or cause to be investigated, any activity within the terms of reference;
  - 10.1.2 seek any information it requires from any employee of the Company in order to perform its duties with all employees requested to co-operate with any request made by the Committee;
  - 10.1.3 obtain external professional services, funded by the Company, on any matter it considers appropriate to its terms of reference and such advisers may attend meetings as necessary;
  - 10.1.4 meet for dispatch of its business, adjourn and other regulate its meetings as it sees fit;
  - 10.1.5 delegate any of its duties as is appropriate to such persons or person as it thinks fit;
  - 10.1.6 avail itself of training it considers appropriate to ensure members have sufficient understanding of the business of the Company and the environment in which it operates, and also to ensure that members are kept up to date with relevant accounting, regulatory, legal and risk management developments including the general duties of directors set out in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules as appropriate. This should include ensuring appropriate induction for new members, covering the role of the Committee, including its terms of reference and expected time commitment by members, and an overview of the Company's business model and strategy, identifying the main business and financial dynamics and risks, it may also include meeting some of the Company's staff; and,
  - 10.1.7 where there is disagreement between the Committee and the Board, and any such disagreement cannot be resolved, the Committee has the right to report the issue as a part of the report on the activities in the Company's Annual Report and Accounts.
- 10.2 The Committee will be provided with sufficient resources to undertake its duties.