

GRAINGER PLC (Grainger or The Company)

AUDIT & RISK COMMITTEE (Committee)

TERMS OF REFERENCE

Terms of Reference

The UK Corporate Governance Code (**Code**) published by the Financial Reporting Council (**FRC**) in January 2024 provides that:

The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates. (Provision 24)

A copy of the Code is available at [UK Corporate Governance Code 2024](#). Copies of the Code together with associated guidance can also be from the Company Secretary.

1 Membership

- 1.1 The Committee shall be made up of at least three members, all of whom shall, in the opinion of the Board, be independent non-executive directors. All appointments to the Committee shall be made by the Board. Members of the Committee shall be appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chair of the Audit Committee.
- 1.2 The Board shall appoint the Committee Chair and the Chair of the Board shall not be a member of the Committee. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting. All members of the Committee shall, in the opinion of the Board, be independent non-executive directors. 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.
- 1.3 Where any matter to be considered by the Committee concerns one of the Committee members, that Committee member shall be replaced for the purposes of that discussion by another independent non-executive director selected by the Committee Chair (unless the matter concerns the Committee Chair, in which case the replacement shall be selected by the remaining Committee members).
- 1.4 Appointments to the Committee shall be for a period the Board shall determine from time to time, provided that the majority of the Committee members remain independent and continue to meet the criteria for membership.

2 Secretary

- 2.1 The Company Secretary or their nominee shall act as the secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretion vested in or exercisable by the Committee.

4 Frequency of meetings

- 4.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise where required. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretion vested in or exercisable by the Committee.

5 Attendance at meetings

- 5.1 Except as otherwise provided, no one other than Committee members shall be entitled to attend Committee meetings, and the Committee shall have the discretion to decide who, other than its members, shall attend its meetings.
- 5.2 As and when appropriate and necessary, the Chair of the Board, other non-executive directors, the CEO, CFO, the Company Secretary, the Directors of Finance, the Financial Controller, Internal Audit, External Audit, Risk Manager and/or other persons, and other external advisers may attend meetings at the invitation of the Committee.
- 5.3 Outside the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance (including financial reporting, risk and internal controls), including the Board Chair, the CEO, the CFO and the internal and external auditors.
- 5.4 There should be at least one meeting per year, or part thereof, where the Committee meets the external and internal auditors without executive Board members present. This need not be the same meeting.

6 Voting

- 6.1 Decisions of the Committee will be made by majority vote. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting.
- 6.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly, has a personal interest, that member shall not be permitted to vote at the meeting.
- 6.3 In the event of any equality of votes, save where they have a personal interest, the Committee Chair will have a second or casting vote.

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 external or internal auditors 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 the items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend, no later than three working days before the date of the meeting. Any supporting papers shall be sent to Committee members and to other attendees (as appropriate) at the same time.
- 7.3 Meetings may, particularly if required on short notice, be held by telephone or any other method of communication approved by the Committee Chair.

8 Minutes of meetings

- 8.1 The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all the members of the Board, unless in the opinion of the Committee Chair it would be inappropriate to do so.

9 Engagement with shareholders

- 9.1 The Committee Chair shall attend the annual general meeting and be available to respond to any shareholder questions on the Committee's activities. In addition, the Committee Chair will be available to engage with shareholders on significant matters related to the Committee's areas of responsibility where this is requested by a shareholder.

10 Duties

The duties of the Committee are set out below and the Committee will carry out the duties for the Company, and the Group as a whole, as appropriate.

10.1 Financial Reporting

- a) Prior to publication, monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance; and reviewing significant financial reporting judgements contained in them. The Committee will also take into account any matters communicated to it by the external auditor.
- b) Where specified by the Board, review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- c) Review and challenge where necessary:
 - i. the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company/Group;
 - ii. the methods used to account for significant or unusual transactions where different approaches are possible;
 - iii. whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - iv. the clarity and completeness of disclosure in the Company's financial statements and the context in which statements are made; and
 - v. all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the external audit and risk management).
- d) As parts of its review of the Company's Annual Report and Accounts (**AR&A**) consider the financial reporting included in the Nominations, Remuneration and

Responsible Business Committees reporting which are to be included in the AR&A and raise any areas where the Committee is not satisfied with any aspect of the proposed disclosures with the relevant Committee.

- e) 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 Annual Reporting

- a) Review the content of the AR&A and advise the Board 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.
- b) Review the integrity of narrative and financial statements including the significant financial reporting judgements within them and oversee any external assurance undertaken in respect of such disclosures.
- c) Report on all activities it has undertaken to meet the requirements of the Code and the FRC's Guidance for Audit Committees (including the External Audit Minimum Standard).
- d) Review and approve the statements to be included in the AR&A concerning internal control, risk management (including the Company's principal risks and uncertainties, procedures in place to identify emerging risks and how these risks are managed or mitigated), the viability statement, and the appropriateness of adoption of the going concern statement.
- e) Compile a report to shareholders on its activities to be included in the AR&A. The report will 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 external auditor, and all other information requirements set out in the Code.
- f) When reporting on its activities, 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 AR&A but could provide cross-references to that information.

10.3 Material Controls

- a) Review a declaration of effectiveness of the material controls as at the balance sheet date for Board approval prior to being included in the AR&A for years ending 2027 and beyond (the first disclosure will be included in the 2027 AR&A).
- b) In the event of any material controls not operating effectively as at the balance sheet date, the Committee will outline in the AR&A disclosures, the action taken or proposed action to improve and address any reported issues.

10.4 Internal Controls and Risk Management Systems

- a) On behalf of the Board, (which retains overall responsibility for internal controls and risk management) the Committee shall keep under review the effectiveness of the Company's financial systems and internal financial controls.

- b) Review the Company's risk appetite and risk management policies and recommend the same to the Board for approval and adoption.
- c) Carry out regular robust assessments of the Company's emerging and principal risks and uncertainties including sustainability related risks, taking into account the recommendations of the Responsible Business Committee.
- d) Review the Company's procedures to manage or mitigate principal risks and identify emerging risks. This includes reviewing the likelihood and the impact of principal risks and uncertainties materialising and the management of and mitigation to reduce the likelihood of their incidence or their impact.
- e) Consider the incidence of risks that arise and provide the necessary oversight to adapt/adjust controls to improve effectiveness as recommended by management and to consider what external audit/verification should be undertaken to give comfort on the correct operations of risk management and internal control.

10.5 Compliance, Whistleblowing and Fraud

- a) Review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence and anonymously, 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 and report to the Board on the effectiveness of these arrangements.
- b) Monitor the effectiveness of the Company's procedures relating to the prevention of fraud, bribery and corruption. These matters will be included in the annual compliance report by Management which will include reporting on the Company's compliance with the following laws and regulations:
 - E Tax evasion
 - Data protection
 - Whistleblowing
 - Modern Slavery
 - Anti-bribery and corruption
 - Fraud and Anti-Money Laundering
 - UK MAR

10.6 Tax and Treasury

- a) Review and approve on behalf of the Board annually the Group's tax policy and treasury policy (including any foreign exchange, hedging and derivative exposures).

10.7 Internal Audit

- a) Approve the Company's Internal Audit arrangements, including the appointment and removal of the Head of Internal Audit (or equivalent) and/or the appointment of any outsourced/co-sourced Internal Audit provider.
- b) Monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system and internal controls.

- c) Consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from undue restrictions.
- d) Review and assess the annual internal audit plan. The Committee will also receive a report on the results of the internal audit's work on a periodic basis and will review and monitor Management's response to the findings and recommendations from the Head of Internal Audit.
- e) Meet with the Head of Internal Audit 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 Head of Internal Audit shall be given the right of direct access to the Chair of the Board and to the Committee.

10.8 External Audit

- a) Consider and make recommendations to the Board to be put to shareholders for approval at the AGM in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- b) 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 will ensure that the Auditor does not serve more than 20 years. The Committee will consider the relevant sections of the Audit Committee Minimum Standards in the conduct of external audit tender processes and any other guidance or best practice it considers appropriate.
- c) Oversee the relationship with the external auditor including, but not limited to:
 - i. approving remuneration and ensure that the level of fee is appropriate to enable an effective and high-quality audit to be conducted;
 - ii. approval of their terms of engagement;
 - iii. assessing annually auditor independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provisions of any non-audit services;
 - iv. 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);
 - v. agreeing with the Board a policy on the employment of former employees of the Company's external auditors, then monitoring the implementation of this policy;
 - vi. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;

- vii. assessing annually their qualifications, expertise and resources and the effectiveness of the external audit process which shall include a report from the external auditor on their own internal quality procedures;
 - viii. seeking to ensure co-ordination with the activities of the internal audit function;
 - ix. evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their external auditor from the market in that evaluation;
 - x. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
 - xi. review and approve the external audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
 - xii. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - a discussion of any major issues with arose during the audit;
 - key accounting and audit judgements;
 - levels of errors identified during the audit; and
 - the effectiveness of the audit process.
- d) The Committee shall also:
- i. review any representation letter(s) requested by the external auditor before they are signed by Management;
 - ii. review the Management Letter and management's response to the external auditor's findings and recommendations; and
 - iii. maintain an Auditor Independence Policy which will include the supply of non-audit services by the external auditor, taking into account any relevant guidance on the matter.

11 Reporting responsibilities

11.1 The Committee Chair shall (if required) report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. Where the Committee meetings are attended by all Directors, the additional reporting to the Board may not be required.

11.2 Where reporting to the Board is required, it should include:

- a) any significant issues that it considered in relation to the financial statements and how these were addressed;
- b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- c) any other issues on which the Board has requested the Committee's opinion.

- 11.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

12 Other matters

12.1 The Committee will:

- a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- b) 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;
- c) at least once a year, review its performance, 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;
- d) be responsible for co-ordination of the internal and external auditors;
- e) oversee any investigation of activities which are within this Terms of Reference; and
- f) work and liaise as necessary with all other Board committees.

13 Authority

13.1 The Committee is authorised by the Board to:

- a) undertake any activity relevant to its terms of reference;
- b) seek any information it requires from any employee of the Company in order to perform its duties, and request the attendance of any employee to be questioned at a meeting of the Committee as and when required; and
- c) obtain, at the Company's expense, outside legal or other independent professional advice, at the Company's expense, on any matter within its terms of reference, and seek the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Document Approval

Reviewed by the Audit & Risk Committee and approved by the Directors on 13 November with effect from 1 October 2025.