

ROTORK PLC

AUDIT COMMITTEE – TERMS OF REFERENCE

Purpose

- The primary function of the Audit Committee (the “**Committee**”) is to assist the board of directors (the “**Board**”) of Rotork plc (the “**Company**”) in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the adequacy and robustness of the system of internal controls (including the controls for complying with applicable laws and regulations) and risk management operated by the Company and its subsidiaries (the “**Group**”) and the adequacy and effectiveness of the internal and external audit processes.
- The Committee aims to satisfy itself that the sources of assurance and information it has used to fulfil its role in reviewing and monitoring the matters set out above are reliable and objective, so as in turn to provide appropriate assurance to the Board in respect of the same.
- In discharging its functions, the Committee shall also have regard to the duty of its members, as directors, to promote the success of the Company for the benefit of its members in accordance with the provisions of Section 172 of the Companies Act 2006 and having regard, as appropriate, to the matters specifically referred to in paragraphs (a) to (f) of that Section.

1. Constitution and authority

- 1.1 The Committee is constituted as a committee of the Board in accordance with the Articles of Association of the Company.
- 1.2 The Committee has the delegated authority of the Board in respect of the functions, powers and responsibilities set out in these Terms of Reference and is thereby authorised in the performance of its duties to:
 - conduct any activity within its Terms of Reference;
 - seek any information it requires from any member of the Group’s workforce and such person shall be directed by management to co-operate with any request made by the Committee; and
 - ask any member of the Group’s workforce, external adviser or other outsiders with relevant experience and expertise to attend meetings of the Committee as and when required.
- 1.3 The Committee may sub-delegate any or all of its powers and authority to one or more of its members or to the Company Secretary (or their nominee), including, without limitation, the establishment of sub-committees which are to report back to the Committee.

2. Membership

- 2.1 The Committee shall be made up of at least three members. All members of the Committee shall be independent non-executive directors.
- 2.2 At least one member of the Committee shall have recent and relevant financial experience in addition to a professional accounting qualification. The Committee as a whole shall have competence relevant to the sector in which the Company operates.

- 2.3 The Board shall appoint the Committee Chair. In the absence of the Committee Chair (or an appointed deputy), the remaining members present at the meeting shall elect one of their number to chair the meeting from those who would qualify under these Terms of Reference to be appointed to that position by the Board.
- 2.4 Appointments to the Committee shall be made by the Board (on the recommendation of the Nomination Committee and in consultation with the Committee Chair) and shall be for a period of up to three years, which may be extended for two further periods of up to three years provided the director still meets the criteria for membership of the Committee.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other directors and individuals such as the Chairman, Chief Executive, Group Finance Director, Group Financial Controller, Head of Risk and Internal Audit and external audit partner shall attend meetings at the invitation of the Committee. The Committee may decide if other non-members should attend for a particular meeting or a particular agenda item or if any of the non-members listed above should not attend for a particular meeting.
- 2.6 There should be at least one meeting a year, or part of a meeting, where the external auditors attend without management present.
- 2.7 The Committee Chair and members of the Committee will be listed each year in the annual report of the Company.

3. **Secretary**

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.

4. **Quorum, conduct and frequency of meetings**

- 4.1 The quorum necessary for the transaction of business at meetings of the Committee shall be any two members present throughout the meeting in person or by telephone or by video conference. If there is difficulty in achieving a quorum, independent non-executive directors who are not members of the Committee may be co-opted as members for individual meetings.
- 4.2 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.
- 4.3 The Committee shall meet at least three times a year where appropriate (and should coincide with key dates in the Company's financial reporting cycle) and at such other times as the Committee Chair shall require.
- 4.4 Meetings and proceedings of the Committee shall be governed by the provisions of the Company's Articles of Association regulating the meetings and proceedings of the Board.
- 4.5 The Committee may hold meetings by telephone or using any other method of communication, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the Committee Chair.

5. **Notice of meetings**

- 5.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair or any other member of the Committee.

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 forwarded to each member of the Committee, any other person invited to attend and all other non-executive directors, no later than three working days before the date of the meeting (except in exceptional or emergency circumstances or where the Committee members agree otherwise). Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6. **Minutes of meetings**

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

6.2 Minutes of Committee meetings shall be circulated promptly to the Committee Chair and once agreed, circulated promptly to all Committee members. They will also be made available to all other members of the Board, unless in the opinion of the Committee Chair it would be inappropriate to do so.

7. **Annual General Meeting and shareholder relations**

7.1 The Committee Chair shall attend the Company's Annual General Meeting (the "AGM") to and be available to answer any shareholder questions on the Committee's activities.

8. **Duties**

Financial reporting

8.1 The Committee shall review and monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, trading statements, preliminary announcements and any other formal announcements relating to its financial performance, and review and report to the Board on significant financial reporting issues, judgements, estimations and uncertainties which those statements contain having regard to matters communicated to it, and consulted on , by the external auditors.

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

- (a) compliance with all applicable and relevant reporting standards and requirements;
- (b) the consistency and application of significant accounting policies and any changes to them, both on a year-on-year basis and across the Group;
- (c) the methods used to account for significant or unusual transactions where different approaches are possible, and how they are disclosed;
- (d) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's view on the financial statements;
- (e) the clarity and completeness of disclosures in the financial statements, including whether the disclosures made are set properly in context;
- (f) all material information presented with the financial statements, including the strategic report and corporate governance statements relating to audit, internal controls systems and to risk management;
- (g) significant adjustments resulting from the external audit and any misstatements detected by the external auditor that individually or in aggregate have not been adjusted for and management's explanations in respect of the same;
- (h) the key considerations and assumptions made in support of going concern and the Company's statement on going concern prior to approval by the Board; and
- (i) the key considerations and assumptions made in support of the viability statement prior to approval by the Board.

- 8.3 Where the Committee is not satisfied with any aspect of the financial statements, it shall report its views to the Board.
- 8.4 The Committee shall review the content of the Company's Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's position and performance, business model and strategy.

External audit

- 8.5 The Committee shall:
- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, for the appointment, re-appointment and removal of the external auditor;
 - (b) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required and make recommendations to the Board regarding any such actions;
 - (c) put the external audit services contract out to tender in accordance with applicable Code and regulatory requirements and, in respect of such tender, oversee the selection and appointment process, ensuring that all tendering firms have access to all necessary information and individuals during the tender process;
 - (d) oversee the relationship with the external auditor and meet regularly with them (including once at the planning stage before the audit and once after the audit at the reporting stage), including at least once a year without the Executive Directors or management being present, to discuss the auditor's remit and any issues arising from the audit and the factors that could affect audit quality;
 - (e) regularly review and monitor, and annually assess, the external auditor's independence and objectivity;
 - (f) monitor the external auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and ethical standards, including guidance on the rotation of audit partner and staff, the level of audit fees paid by the Company compared with the non-audit fees paid to the external auditor and the non-existence of any other relationship between the Company and the external auditor outside the ordinary course of business;
 - (g) annually review and assess the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
 - (h) in consultation with the Group Finance Director, review and approve the external auditor's fee, terms of their engagement letter and the scope of each annual audit before the audit commences and pre-approve fees in respect of certain non-audit services provided by the external auditor where required under the relevant policy;
 - (i) review and approve the annual audit plan, ensuring its consistency with the scope of the audit engagement (having regard to the seniority, expertise and experience of the audit team) and complies with the requirements of the applicable rules and regulations for external audits;
 - (j) review the findings of the audit, including the key judgements and level of misstatements, with the external auditor;
 - (k) review any representation letter requested by the external auditor before they are signed by management and management's response to the auditor's findings and recommendations;
 - (l) review the external auditor's report to the Directors and the management letter, including management's response to the auditor's findings and recommendations;
 - (m) agree with the Board a policy (and review annually) on the employment of former employees of the external auditor and to monitor the application of this policy; and

- (n) develop, implement and monitor compliance with the Company's formal policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact or threat this may have to auditor objectivity and independence, taking into account the relevant regulations and ethical guidance and reporting to the Board on any improvement or action required.

Internal audit

8.6 The Committee shall:

- (a) approve the appointment and termination of the appointment of the Head of Risk and Internal Audit;
- (b) review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, in the context of the Company's overall risk management system, and annually approve the internal audit charter ensuring its appropriate for the current needs of the Company;
- (c) ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and perform in accordance with appropriate professional standards for internal auditors;
- (d) review and approve the annual internal audit plan to ensure its aligned to the key risks of the business and receive regular reports on work carried out, including any issues identified;
- (e) monitor and review management's responsiveness to the internal auditor's findings and recommendations;
- (f) meet with the Head of Risk and Internal Audit at least once a year without management being present, to discuss internal audit's remit and any issues arising from the internal audits that have been carried out;
- (g) ensure Internal Audit have direct access to the Committee and to the Chairman of the Board where necessary. The Head of Risk and Internal Audit reports to the Committee Chair, although the Committee recognises that day-to-day reporting is to the Group Finance Director.

Internal controls and risk management systems

8.7 The Committee shall:

- (a) keep under review the Company's internal financial controls that identify, assess, manage and monitor financial risks and other internal control and risk management systems;
- (b) receive reports from management on the adequacy and effectiveness of the Company's internal financial, operational and compliance controls and risk management as well as the conclusions of any testing carried out by the internal or external auditors;
- (c) develop and monitor the implementation of the Company's strategy and policy for risk management and subsequent amendments;
- (d) monitor the adoption and application of the risk management policy throughout the Company;
- (e) assess the effectiveness of systems established by management to identify, assess, manage and monitor financial and non-financial risks and consider any necessary actions and recommendations required to be made to the Board to address any significant failings or weaknesses arising from the same; and
- (f) include all required reporting and disclosure requirements concerning internal controls and risk management in its annual report to shareholders (see 9.4 below).

Anti-Bribery, Anti-Slavery and Fraud

8.8 The Committee shall:

- (a) review the adequacy and effectiveness of the Company's policies, systems, procedures and controls for the prevention and detection of bribery, slavery and fraud and receive reports on the same and on any instances of non-compliance with the same;
- (b) review the adequacy and security of the Company's arrangements for members of the Group's workforce to raise concerns, in confidence and anonymously (where legally permissible), about suspicions of bribery, slavery, fraud and other wrongdoings, including whether these arrangements allow proportionate and independent investigation of such matters and further review management's implementation of appropriate follow up action;

and the Committee shall regularly report to the Board on the findings of such reviews and of any such investigations and shall make recommendations to the Board on the actions to be taken to address any apparent weaknesses in systems and controls and to redress any proven wrongdoings.

9. Reporting responsibilities

9.1 The Committee Chair 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 make whatever recommendations to the Board it deems appropriate on any area within its remit where it considers action or improvement with Board approval is needed.

9.3 The Committee shall report to the Board annually on how it has discharged its duties and responsibilities.

9.4 The Committee shall compile a report to shareholders for the Board to approve on its role and activities to be included in the Company's Annual Report. The report should include all the information and disclosure requirements set out in the relevant UK Corporate Governance Code and details of any issues that cannot be resolved between the Committee and the Board, including where the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal.

9.5 The Committee Chair (and other Committee members as required) shall, on request, make themselves available to meet with investors to demonstrate that shareholder interests are being properly protected in relation to financial reporting and internal controls.

9.6 The Committee shall make available to shareholders these Terms of Reference by placing them on the Company's website.

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 Secretary for assistance as required and the ability to seek any information it requires from any employee of the Company;

10.2 obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference;

10.3 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;

10.4 oversee any investigation of activities which are within its Terms of Reference;

- 10.5 at all times during the performance of its duties be mindful of the latest guidance issued by recommendations made by the UK Financial Conduct Authority (or any successor body thereto);
- 10.6 ensure compliance with all applicable and relevant laws and regulations, including (without limit) applicable financial standards, the Companies Act 2006 (including any regulations made under that Act), and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and any other applicable rules, and give due consideration to corporate governance best practice including (without limit) the provisions of the UK Corporate Governance Code and, as deemed appropriate, any relevant guidelines published by institutional investors or shareholder representative bodies; and
- 10.7 arrange for periodic reviews of its own performance (using external evaluators where and when appropriate) and, at least annually, review its:
- Terms of Reference to ensure it is operating at maximum effectiveness; and
 - composition and membership, and
- report on the same and recommend any changes it considers necessary to the Board for approval.