Energy for generations

ESB Group

Audit and Risk Committee

Terms of Reference

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1. INTRODUCTION

The Board has established an Audit & Risk Committee to assist it in in discharging its responsibilities in relation to financial and sustainability reporting, internal audit, external audit, internal control and risk management oversight.

The Committee is also responsible for reviewing and monitoring the objectivity and independence of the external Auditor and oversees implementation of the non-audit services policy.

2. DEFINITIONS

"The "Company" is ESB**.**
"ESB Group" means ESB and all majority held subsidiary companies owned directly or indirectly by ESB, including ESB Networks DAC and NIE Networks Group Companies.
"The Board" means the Board of the ESB.
"the Committee" is the Audit & Risk Committee.
The "**Company Secretary**" is the Company Secretary of the Company.
"Large Subsidiary Companies" means Irish subsidiary companies coming within the scope of Section 167 of the Companies Act, 2014.
"**CSRD**" means the Corporate Sustainability Reporting Directive, as implemented in Ireland by the European Union (Corporate Sustainability Reporting) Regulations 2024 (S.I. No. 336/2024).
The "**State Code**" means the Code of Practice for the Governance of State Bodies.

3. SCOPE

The Committee's remit includes ESB and all companies in the ESB Group, as described in more detail below.

4. MEMBERSHIP AND ATTENDEES

(a) The Board shall, in consultation with the Chairman of the Committee, appoint the Chairman and members of the Committee. All members of the Committee shall be independent non-executive directors. The Chairman of the Board shall not be a member of the Committee.

(b) Appointments to the Committee should be for a period of five years, which may be renewed for a second term, up to a maximum of eight years in total, so long as the committee member continues to be independent. A standard letter of appointment shall issue to each new Committee member on appointment.

(c) Alternates can be agreed by the Committee Chairman in advance of the meeting.

(d) The Board may from time to time remove or replace members of the Committee.

(e) In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

(f) At least one of the Committee members shall (or, where there is more than one director of the kind), one of them;

i. possess the requisite degree of independence as specified in Section 167 of the Companies Act, 2014; and

ii. have competence in accounting or auditing, ideally with a professional qualification from one of the professional accountancy bodies.

All Committee members should have or acquire after appointment an understanding of the Company and its strategy and values, organisation structures including key stakeholder relationships and of the Company's legal and governance framework.

(g) Only members of the Committee have the right to attend Committee meetings. However, the Executive Director, Group Finance and Commercial, the external auditor and internal auditor will be invited to attend meetings of the Committee on a regular basis. Other individuals including the Board Chairman, Chief Executive, other Board members or other members of management or representatives of the risk function or legal and compliance advisory function may be invited to attend all or part of any meeting as and when appropriate and necessary.

(h) At least once per calendar year the Committee should meet (i) the external auditors and (ii) the internal auditors, in each case without executive Board members present. This need not be the same meeting.

5. CHAIRMAN OF THE COMMITTEE

The Chairman has responsibility for ensuring that:

- the Committee is appropriately resourced;
- the Committee reviews Internal Audit reports and management responses and ensures that actions are followed up;
- reports to the Committee contain relevant information and are provided at the right time in an appropriate format;
- absent Committee members are briefed on meetings;
- attendance records are maintained and reviewed annually;
- he or she reports at Board meetings and submits regular written reports, normally by way of Committee minutes, to the Board containing relevant information; and that
- matters arising are reported on at each subsequent meeting.

Appraisal: Appraisal of the Chairperson of the Audit and Risk Committee should be overseen by the Chairperson of the Board.

6. SECRETARY

(a) The Company Secretary (or his/her nominee in their absence) shall be the Secretary of the Committee.

(b) Committee members will have access to sufficient resources to carry out their duties, including access to the Company Secretariat for advice and assistance as required.

(c) The Company Secretary shall: -

(i) minute the proceedings and decisions of all meetings of the Committee.

(ii) request papers as necessary and support the Chairman in reporting to the Board;

(iii) for any agreed actions, document the owner, deadline and any advice given by stakeholders and monitor between meetings;

(iv) together with senior management, keep the Committee abreast of relevant developments in ESB;

(v) ensure Committee members are provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis; and

(vi) maintain a record of Committee members' appointments and termination/renewal dates and ensure that appropriate appointment procedures are initiated when necessary.

7. QUORUM

(a) The quorum necessary for the transaction of business shall be two members.

(b) The Committee may hold meetings by telephone or using any other electronic method of communication whereby the participants are able to communicate effectively with each other and may take decisions by unanimous written resolution, when deemed necessary or desirable by the Committee Chairman.

8. MEETINGS

8.1 Frequency

(a) The Committee shall meet at least four times a year, at appropriate intervals in the financial reporting and audit cycle, and additionally as circumstances require.

(b) Outside of formal scheduled meetings, 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 Executive Director, Group Finance and Commercial, the external audit partner and the Group Internal Auditor.

8.2 Notice of Meetings

(a) Meetings of the Committee shall be convened by the Company Secretary at the request of any of its members or at the request of the Chief Executive, the Executive Director, Group Finance and Commercial, the external auditor or Group Internal Auditor if they consider it necessary.

(b) Unless otherwise agreed by the Committee, 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 no later than five 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 unless agreed otherwise by the Committee Chairman.

8.3 Minutes of Meetings

(a) The Company Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present, absent and in attendance.

(b) The Company Secretary shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

(c) Draft minutes of Committee meetings shall be circulated promptly to (or otherwise made available for review by) all members of the Committee. Once approved, minutes should be circulated to (or otherwise made available to) all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

(d) Final signed copies of the minutes of the meetings of the Committee shall be maintained by the Company Secretary's office.

8.4 Conflicts of Interest

The process for recording declarations of conflicts of interest in the Committee shall be the same as for the Board.

8.5 Annual General Meeting

The Committee Chairman should attend the annual general meeting of the Company to answer any stockholder questions on the Committee's activities.

9. AUTHORITY

The Committee is authorised by the Board to:

(a) oversee the investigation of any activity within these Terms of Reference;

(b) seek any information that it requires from any employee of ESB Group, and all employees are directed to co-operate with any request made by the Committee;

(c) obtain outside legal or independent professional advice, at the Company's expense, and secure the attendance of outsiders with relevant experience and expertise if it considers this to be necessary; and

(d) exercise Board's delegated authority when authorised.

10. DUTIES

The Committee shall carry out the duties set out below:

10.1 Statutory Financial Reporting

(a) The Committee shall monitor the integrity of the annual and (where applicable) half-yearly financial statements of the Company and Large Subsidiary Companies, reviewing and reporting to the Board on all significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor.

(b) In particular, the Committee shall review and challenge where necessary:

(i) the consistency of, and any changes to, significant accounting policies on a year-on-year basis;

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

(iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

(iv) the clarity and completeness of disclosures in the financial statements of the Company and the context in which the disclosures are made;

(v) all material information presented with the financial statements of the Company, such as the business review and the corporate governance statements relating to the audit and to risk management.

(c) Report to the Board whether it is appropriate to adopt the going concern basis of accounting in preparing the interim and annual consolidated and Company financial statements, identifying any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

(d) Taking account of the Company's current position and principal risks, support the Board with its year end assessment of the prospects of the company and the appropriateness of the period of assessment. The Committee will approve the related Viability Statement for inclusion in the Annual Report.

(e) Review representation letter(s) to be provided to the external auditors and the attestations provided therein and recommend it to the Board.

(f) The Committee shall review the content of the Company's annual report (including the financial statements included therein and sustainability and non-financial reporting) and advise the Board on whether, taken as a whole, it: -

(i) is fair, balanced and understandable,

(ii) provides the information necessary for the stockholders to assess the ESB Group's performance, business model and strategy, and

(iii) satisfies the requirements in relation to the preparation of an annual report (and financial statements) applying under the ESB Acts, 1927 – 2014, the ESB Regulations and/or the Code of Practice for the Governance of State Bodies.

(g) The Committee shall monitor the financial reporting process, including significant adjustments resulting from material errors identified, including any arising from the audit.

(h) The Committee shall confirm that Board members' responsibilities in respect of the Regulatory Accounts for the separate businesses and licenced activities of the Board[1] have been fulfilled and that the accounts can be recommended to the Board for approval.

(i) The Committee shall review the company's preparedness for any known future significant changes in annual financial reporting requirements and ensure appropriate plans are in place to comply with those requirements.

10.2 Large Subsidiary Reporting

The Committee[2] shall, in relation to Large Subsidiary Companies:

(a) monitor the financial reporting process;

(b) monitor of the effectiveness of those companies' systems of internal control, internal audit, compliance and risk management;

(c) monitor the statutory audit of those companies' statutory financial statements;

[1] As set out in Regulation 27(2) and Regulation 27(3) of SI 445 of 2000 as amended by Regulation 27 of SI 60 of 2005

[2] Section 167(7) & Section 167(9)of the Companies Act 2014

(d) obtain representations from Management, taking into account the views of the external auditor, in relation to the consistent application by those companies of appropriate accounting standards and appropriate estimates and judgements, and the clarity and completeness of disclosures in the financial statements of those companies; and

(e) review and monitor the independence of the statutory auditor.

10.3 Sustainability Reporting

(a) The Committee shall monitor the integrity of the sustainability reporting of the Company that is subject to external audit/assurance only, reviewing and reporting to the Board on significant issues and judgements which such sustainability reporting contains, having regard to matters communicated to it by the external sustainability auditor.

(b) In this regard, the Committee shall review, and challenge where necessary:

(i) the consistency of, and any changes to, significant basis of preparation policies and practices both on a year-on-year basis and across the Company/ ESB Group;

(ii) whether the Company has followed appropriate sustainability standards and made appropriate estimates and judgements, taking into account the views of the external sustainability auditor;

(iii) the clarity and completeness of disclosure in the ESB Group's sustainability reporting and the context in which statements are made;

(iv) all material information presented in the sustainability statements,

(v) significant adjustments resulting from the audit;

(vi) the representation letter to the external sustainability auditors; and

(vii) the performance of the external sustainability auditor (as set out in section 10.7 (c) below).

(c) Where the Committee is not satisfied with any aspect of the proposed sustainability reporting of the ESB Group, it shall report its views to the Board.

(d) The Committee carries out its responsibilities, recognising that:

(i) Sustainability reporting is not at the level of maturity of financial reporting;

(ii) 2027 is the first year of reporting under CSRD and it is expected that sustainability reporting will evolve over time through accepted best practice and increased interpretative positions emerging; and

(iii) CSRD reporting is subject to limited assurance.

10.4 Internal Controls, Compliance and Risk Management Systems

The Committee shall:

A. Internal Controls

(i) approve the Internal Control Framework Policy;

(ii) keep under review the adequacy and effectiveness of the ESB Group's material financial (including tax) and non-financial controls, including where applicable, those related to: -

- sustainability reporting;
- information systems, cybersecurity and data protection;
- procurement, and
- legal and regulatory compliance.

(iii) review reports on any material control incidents and proposals to address weaknesses identified;

(iv) based on the assurance provided, conclude and recommend to the Board that the framework for internal control has operated satisfactorily and effectively during the reporting period and that the system of internal reporting gives appropriate early warning of significant internal control failings;

(v) review and approve the statements on internal controls and risk management in the Company's Annual Report;

(vi) review the adequacy of the governance arrangements in place in the ESB Group in relation to joint venture companies and companies in which ESB has a minority shareholding; and

(vii) review annually the policy, performance and reporting of payment practices across the ESB Group.

B. Risk Management

(i) review and recommend to the Board for approval the ESB Group Enterprise Risk Policy;

(ii) review the ESB Group Risk Appetite Statement and advise the Board in its consideration of the overall risk appetite, risk tolerance and risk strategy of ESB Group. Review reports on any material breaches of risk limits, risk incidents and the adequacy of proposed corrective actions;

(iii) support the Board in carrying out its responsibilities for ensuring that there is a robust process in place to identify, assess, mitigate and report on enterprise risk.

(iv) recommend the Annual Group Risk Plan to the Board for approval and keep under review the principal, emerging and high impact/low probability ("HILPs") risks of the ESB Group;

(v) approve the statements of principal risks to be included in the annual report;

(vi) review and monitor the effectiveness of the arrangements for crisis management and business continuity planning for ESB Group; and

(vii) advise the Board on the need for periodic external review of the effectiveness of enterprise risk management.

C. Compliance

(i) review the processes adopted by ESB to achieve compliance with the State Code and its related Annexes and Guidelines, and any other Corporate Governance Code adopted by the Board (on a voluntary basis);

(ii) provide assurance to the Board for the basis on which the Chairman may sign-off on compliance with the State Code;

(i) review compliance frameworks and the effectiveness and adequacy of the controls and procedures adopted across ESB Group to identify and give reasonable assurance concerning compliance with all statutory and regulatory obligations applicable to ESB Group;

(ii) review and approve, prior to publication, the ESB Group Tax Strategy; and

(iii) review and monitor the tax policies and procedures adopted by ESB Group, including compliance with Tax Clearance Certificate requirements as called out in the State Code.

10.5 Whistleblowing, Fraud and Investigations

The Committee shall:

(a) review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and for the raising of protected disclosures under the Protected Disclosures Act 2014 (as amended);

(b) review and approve the terms of the ESB Whistleblowing & Protected Disclosures Policy (and any changes thereto) and ensure that the policy provides for proportionate and independent investigation of reported matters and appropriate follow up action;

(c) be informed of instances of actual or potential protected disclosures;

(d) review and approve reports, (i) for submission to the Minister not later than 1 March each year, and (ii) for inclusion in the Annual Report, in the form and covering the matters required by the Protected Disclosures Act 2014 (as amended);

(e) review and approve the ESB Anti-Bribery, Anti-Corruption and Fraud Prevention Policy;

(f) review and monitor the effectiveness of the systems and controls in place for:

(i) preventing and detecting fraud and for

(ii) the prevention of bribery and corruption.

(g) be informed by the Group Internal Auditor of instances of fraud and wrongdoing and any investigations underway, including any third-party related incidents;

(h) receive an annual report on the implementation of the Gifts and Corporate Hospitality Policy; and

(i) be informed of regulatory/agency investigations and anticipated investigations.

10.6 Internal Audit

The Committee shall:

(a) monitor and assess the role and effectiveness of the internal audit function including their independence, objectivity, expertise, experience, and adherence to professional standards;

(b) support internal audit function to fulfil its mandate, charter commitments, strategy objectives and audit plan;

(c) review and approve the charter of the internal audit function annually and ensure that the function has appropriate standing;

(d) review and approve the strategy of the internal audit function;

(e) review and recommend to the Board for approval the annual internal audit work programme;

(f) receive reports on the results of the internal auditors' workplan and performance on a periodic basis;

(g) review and monitor management's responsiveness to the internal auditors' findings and recommendations;

(h) receive annually an update of the internal audit quality assessment process;

(i) advise the Board on the periodic external review of the effectiveness of the internal audit function;

(j) ensure that the Head of Internal Audit has direct access to the Board Chairman and to the Chairperson of the Audit & Risk Committee and reports as appropriate to the Committee;

(k) be consulted in advance of the appointment or termination of appointment of the Head of Group Internal Audit and provide input to support the performance evaluation and remuneration arrangements of the Head of Group Internal Audit;

(l) approve the appointment or termination of appointment of any co-source internal audit service provider; and

(m) meet with the Head of Group Internal Audit at least once a year without the presence of management.

10.7 External Audit

The Committee shall:

(a) consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of ESB's external financial and sustainability auditors (as appropriate);

(b) ensure that at least once every ten years (or at such shorter intervals as may be required by law) the audit services contract tender is conducted to ensure compliance with applicable laws and to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

(c) Oversee the relationship with the external auditor, including but not limited to:-

(i) making recommendations on 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;

(ii) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

(iii) assessing annually their independence and objectivity 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;

(iv) satisfying itself that there are no relationships between the auditor and ESB (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

(v) approving guidelines for the employment of former employees of the external auditor(s), and monitoring the implementation of same;

(vi) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, 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 the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor(s) on their own internal quality procedures including a report by the external auditor on its internal quality management system and covering any reports by audit regulators on the external auditor; and

(viii) seeking to ensure co-ordination with the activities of the internal audit function.

(d) meet regularly with the external financial and sustainability auditor(s) (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 their remit, the operation of the internal audit function and any issues arising from the audit;

(e) review and approve the annual external financial and sustainability 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;

(f) review the findings of the audit with the external financial and sustainability auditor(s). This shall include but not be limited to, the following:

- a discussion of any major issues which arose during the audit;
- key accounting and audit judgements;
- levels of errors identified during the audit; and
- the effectiveness of the audit process;

(g) report on key matters arising from the statutory audit of Large Subsidiary Companies, and, in particular, on material weaknesses in internal control in relation to the financial reporting process;

(h) review any representation letter(s) requested by the external financial and sustainability auditor(s) before they are signed by management;

(i) review the external auditor's Internal Controls Recommendations Report(s) and management's response to the auditor's findings and recommendations;

(j) receive and review reports of the statutory auditors on key matters arising from the statutory audit of ESB and all Large Subsidiary Companies and, in particular, on material weaknesses in internal control in relation to the financial reporting process; and

(k) develop a policy on the supply of non-audit services, taking into account any relevant professional, ethical or regulatory guidance on the matter. Monitor implementation of the policy including monitoring total spend on provision of professional services by all firms with audit practices to the Group.

11. RESOURCING

The Committee will keep under review frameworks for the management of finance, internal audit, risk and compliance talent and capability and monitor the appropriateness of resources in place to operate the system of internal control in relation to these matters.

12. REPORTING AND OTHER MATTERS

(a) The Committee Chairman shall report formally 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 the significant issues that it considered in relation to the ESB Annual Report and financial statements and how these were addressed; its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor.

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

(c) The Company Secretary shall prepare a Committee Work Plan annually, including Key Performance Indicators ("KPIs"), reflecting the Committees priorities for the year ahead and to ensure that the Committee has adequate coverage of its oversight responsibilities as set out in this Terms of Reference.

(d) The Committee shall submit an annual report on its activities to the Board, presenting the Committee's opinion on: -

i. the workplan outturn and achievement of KPIs;

ii. the activities completed to support the Committee's review of:

- financial and sustainability reporting for the year;
- the adequacy of risk management and internal control systems;
- the adequacy of sources of assurance for same;
- governance issues and concerns; and
- quality of internal and external audit.

The Report will also set out the Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

(e) 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 sustainability disclosures and how these issues were addressed, having regard to matters communicated to it by the external auditor(s). In compiling this report, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial and sustainability 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 of the Committee need not repeat information disclosed elsewhere in the Company's Annual Report (including in the financial statements set out therein) but may provide cross-references to that information.

(f) The Committee shall arrange for periodic reviews of its own performance and annually review its Terms of Reference and recommend any necessary changes to the Board.

(g) The Committee shall keep its own training needs under review and ensure appropriate and timely induction for new members. There should be a formal induction process in place (including individually tailored training) for new Committee members. The Committee Chairman should make recommendations to the Board on the Committee's and individual members' training needs. The Committee should keep up to-date with best practices and developments in corporate governance.

(h) The Committee shall work and liaise as necessary with all other Board Committees and in this regard the Committee Chairman will meet, as required, with the Chairpersons of the other Board Committees to agree and update as appropriate on matters of mutual interest and on the specific risk responsibilities of these Committees.