

## ESSENTRA PLC ('THE COMPANY')

### AUDIT COMMITTEE - TERMS OF REFERENCE

The Board of the Company ('the Board') resolved to establish a committee of the Board known as the Audit Committee ('the Committee') at a meeting held on 12 May 2005, when terms of reference were formally agreed. The terms of reference for the Committee were revised and approved by the Board on 18 December 2013.

#### Purpose

**1. Purpose** The Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing, challenging and approving its accounting policies and scrutinising the effectiveness of the internal and external auditors and the Company's internal control and risk management systems.

#### Membership and Secretary

**2. Composition** The Committee members shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee. The appointments shall be made in accordance with the Company's Articles of Association. The Committee shall comprise a minimum of three members, each of whom shall be an independent non-executive director of the Company. Each member of the Committee shall be free from any relationship or conflict of interest that may interfere with the exercise of his or her judgment as a member of the Committee and shall meet the independence requirements of applicable law, regulations and the listing rules of the UK Listing Authority.

**3. Committee Membership** Each member shall hold office as a Committee member for a period of up to three years, which may be extended by no more than two additional three-year periods, so long as members continue to be independent.

**4. Financial experience** At least one Committee member shall have recent and relevant financial experience. The remaining members should, as a minimum, have experience of dealing with financial and accounting matters.

**5. Induction** Committee members must undertake an induction programme provided by the Company, including meeting senior executive management and covering the role of the Audit Committee and an overview of the Company's business model and strategy, identifying the main business and financial dynamics and risks.

**6. Training** Committee members should undertake ongoing and timely training, including on the principles of and developments in financial reporting and related company law, including applicable accounting standards and recommended practice, risk management and corporate governance practice.

**5. Chairman** The Chairman of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee. In the absence of the Chairman of the Committee, the members present at any meeting of the Committee shall elect one of their number to chair the meeting.

**6. Secretary** The Company Secretary or, with the consent of the Committee, his or her nominee shall be the secretary of the Committee.

#### Meetings

**7. Attendance** The Committee may invite any person to attend its meetings and the Company's Group Finance Director and Group Head of Assurance shall normally attend its

meetings. Other than by invitation, no other person is entitled to be present at a meeting of the Committee. It is expected that the external audit lead partner will be invited regularly to attend meetings.

**8. Frequency and Notice** The Committee Chairman, in consultation with the Secretary, shall decide the frequency and timing of the Committee's meetings. In any event, meetings shall be held not less than three times a year to coincide with key dates in the Company's financial reporting cycle. A meeting shall be held as soon as reasonably practicable upon a request for any such meeting by the Company's internal or external auditors. The Secretary shall send out the agenda and relevant papers for each meeting in a timely manner.

**9. Quorum** The quorum for meetings of the Committee shall be two members present throughout the meeting.

**10. Minutes** The Secretary shall ascertain at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall prepare minutes of any meeting of the Committee and circulate them to all members of the Committee and once agreed, to all members of the Board, unless a conflict of interest exists.

#### **Authorities**

**11. Resources** The Committee shall be provided with sufficient resources to undertake its duties.

**12. Advice** The Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of third parties with relevant experience and expertise, if it reasonably considers this necessary, at the Company's expense. The Committee shall have access to the external auditors as required.

**13. Support** The Committee shall have access to the services of the Secretary on all Committee matters.

**14. Investigation** The Committee is authorised by the Board to investigate any activity within the scope of its duties and to intervene if the Committee considers it appropriate and/or if the Board instructs it to do so.

**15. Information** The Committee is authorised to seek any information it requires from any employee, consultant or contractor of the Company or any of its subsidiaries in order to perform its duties and shall have access to the Group Head of Assurance.

**16. Reports** The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

**17. Delegation** The Committee may delegate such of its duties and responsibilities to any one or more members of the Committee as it may deem appropriate having regard to the purpose of the Committee.

**18. Duties and responsibilities** The Committee shall undertake the following:

#### **(A) General**

- **Shareholder interests** The Committee shall seek to ensure the interests of the shareholders are properly protected in relation to financial reporting and internal control;
- **Financial controls** The Committee shall satisfy itself that there is a proper system and allocation of responsibilities for the day-to-day monitoring and operation of financial controls;
- **Subsidiaries** The Committee shall review issues within its remit that relate to particular financial reporting subsidiaries, their internal control and risk management or control over activities carried on by the Group; and

- **Pension funds** The Committee shall review the annual financial statements of the Company's pension funds where such are not reviewed by the Board as a whole.

**(B) External Auditor**

- **Appointment and removal** The Committee shall oversee the process for selecting the external auditors and make appropriate recommendations to the Board, to be put to shareholders for their approval at the Annual General Meeting regarding the appointment, re-appointment or removal of the external auditors. The Committee must conduct a tender process at least once every ten years 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 access as is necessary to information and individuals during the duration of the tendering process.
- **Remuneration** The Committee shall approve the remuneration payable to the external auditors in respect of audit fees ensuring the fees are appropriate to enable an effective and high quality audit to be conducted. The Committee shall approve the policy relating to the remuneration payable to the external auditors in respect of non-audit fees and approve any fees which are payable to them in accordance with such policy;
- **Limit of Liability** The Committee shall consider and, if appropriate, approve any limit of liability the external auditor wishes to place upon their engagement;
- **Committee recommendation** The Committee shall, if the Board does not accept its recommendation on the appointment, re-appointment or removal of external auditors, prepare a statement explaining the Committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment, together with the Board's reasons for taking a different position;
- **Auditor meetings** The Committee shall meet regularly with the external audit lead partner and other audit partners and staff and in accordance with these terms of reference; and at least once a year without management being present
- **Expertise** The Committee shall assess annually the qualifications, expertise, resources, independence and relationship as a whole, including the provision of any non-audit services of the external auditors and the effectiveness of the audit process. The assessment shall cover all aspects of the audit service provided by the audit firm and include obtaining a report on the audit firm's own internal quality control procedures;
- **Resignation** The Committee shall, if the external auditor resigns, investigate the issues leading to such resignation and consider whether any action is required;
- **Engagement letter** The Committee shall review and agree the engagement letter with the external auditors at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;
- **Audit scope** The Committee shall discuss and agree with the external auditors before the audit commences (and keep under review) the scope and results of the audit; arrange for additional work to be undertaken if the scope is not adequate; review whether the level of fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- **Independence** The Committee shall monitor the application of the Company's policy in relation to the external auditors' independence and objectivity and the effectiveness of the audit process. This should be done annually on the basis of the policy, taking into consideration relevant professional and regulatory requirements and the relationship of the external auditor as a whole, including the provision of any non-audit services. The Committee should agree with the Board a policy on the employment of former employees of the external auditor, and monitoring the implementation of this policy
- **Ethical and professional standards** The Committee shall monitor the external auditors' 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 and other related requirements;
- **Non-audit services policy** The Committee shall develop and implement a policy on the provision of non-audit services by the external auditors, taking into account

relevant ethical guidance; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditors' independence and objectivity);

- **Annual audit plan** The Committee shall at the start of each annual audit cycle ensure that appropriate plans are in place for the audit;
- **Review work plan** The Committee shall consider the external auditors' work plan and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the external audit team
- The Committee should seek to ensure co-ordination of the external auditor with the activities of the internal audit function
- **Review audit findings** The Committee shall review with the external auditors (in the absence of management if necessary) the results of its work in conducting the annual and any half year audit. This shall include:
  - any major issues that arose during the course of the audit (both resolved and unresolved issues);
  - whether the Company has followed appropriate key accounting standards and made appropriate estimates and judgements;
  - levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; and
  - any reservations that the external auditors may have and other matters that they wish to raise;
- **Representation letters** The Committee shall review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested in relation to non-standard issues. It shall also give consideration to whether the information provided is complete and appropriate, based on its own knowledge;
- **Management response and letter** The Committee shall review and monitor management's response to the external auditors' findings and recommendations and, if and to the extent that the Committee deems it appropriate having regard to its review of the external auditors' findings and recommendations, review the external auditors' management letter; and
- **Effectiveness of audit** The Committee shall at the end of the annual audit cycle assess the effectiveness of the audit process.

#### (C) Internal Audit

- **Remit** The Committee shall monitor and review and approve the internal audit function's remit, in the context of the company's overall risk management system , having regard to the role fulfilled by the external audit function;
- **Access for Group Head of Assurance** The Committee shall ensure that the Head of Internal Audit has direct access to the Chairman of the Company and to the Committee, and shall meet at least annually with the Group Head of Assurance without management present, to discuss their remit and any issues arising from the internal audits undertaken;
- **Effectiveness of Internal Audit** The Committee shall monitor and review the effectiveness of the internal audit function; to ensure that the internal audit function is adequately resourced, has access to the information necessary to enable it to fulfil its mandate, and is able to perform in accordance with appropriate professional standards for internal auditors, and to ensure the function has adequate standing and is free from management and other restrictions;
- **Internal Audit Plan** The Committee shall review and assess the annual internal audit plan and receive a report on the results of the internal audits at each meeting; and
- **Group Head of Assurance** The Committee shall approve the appointment or termination of appointment of the Group Head of Assurance

#### (D) Integrity of Financial Statements

- The Committee shall monitor the integrity of the financial statements of the Company, including the preliminary announcement and the half year report, and, to the extent

required by the Board in the event that such matters have not been reviewed in detail by the Board as a whole, the interim management statements, significant financial returns to regulators and any other formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them and having regard to matters communicated to the Committee by the external auditor.

- In particular reviewing and challenging where necessary:
  - **Significant policies**, the consistency of and any changes to, both on a year on year basis and across the Company and Group, any changes to them and any significant estimates and judgements;
  - **Appropriate accounting treatment**, considering whether the Company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements, taking into account the external auditors' view;
  - **The methods** used to account for significant or unusual transactions where different approaches are possible;
  - **Disclosures** reviewing the clarity and completeness of disclosures in the financial statements and the context within which the disclosures are made are set properly in context;
  - **Adequacy of financial reporting** where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board; and
  - **Review related information** reviewing material information presented with the financial statements, including the Strategic Report (including in particular the analysis of principal risks and non-financial KPIs), the Remuneration Report and corporate governance statements relating to audit and risk management.

#### (E) **Internal Control and Risk Management**

- **The Committee** shall keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- **The Committee** shall review the Group's risk management systems (including the Company's policy for the avoidance of potential conflicts of interest) in order to gain considerable assurance that key risks are being effectively managed;
- **The Committee** shall in relation to risk assessment keep under review the Company's overall risk assessment processes that inform the Board's decision-making, ensuring that both appropriate qualitative and quantitative metrics are used;
- **The Committee** shall review the Company's capability to monitor and manage critical risks and to identify and manage new and emerging risks;
- **The Committee** shall review and approve the statements to be included in the annual report concerning internal controls and risk management;
- **Whistleblowing** The Committee shall review the adequacy and security of the Company's arrangements for its employees and contractors who may, in confidence, raise concerns about possible improprieties relating to financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action;
- **Internal investigations** The Committee shall consider the major findings of internal investigations and management's response; and
- **Fraud** The Committee shall review the Company's systems and controls for the prevention of bribery and corruption and the detection of fraud and review any reports of non-compliance.
- **Compliance** The Committee shall review the Company's compliance programmes as part of its review of the Company's internal control and risk management systems.

#### (F) **Reporting Responsibilities**

- **Committee report** 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 has 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 any other information requirements set out in the Code

- **Contents of reports** When compiling its reports, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statement are significant but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern
- **Narrative reporting** When requested by the Board, the Committee shall review the context 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.
- **Internal control statement** The Committee shall produce for the Board's approval the statement for inclusion in the Corporate Governance report (to shareholders as contained in the annual report) in relation to internal control and the management of risk;
- **Non-audit services** The Committee shall if the external auditor provides non-audit services, keep under review the level of such services and provide an explanation for inclusion in the Corporate Governance report (to shareholders as contained in the annual report) of how auditor objectivity and independence is safeguarded;
- **Board** The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and how it has discharged those responsibilities, including the significant issues that it considered in relation to the financial statements and how they were addressed; the assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and any other matters on the Board has requested the Committee's opinion.. The Chairman will identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken; and
- **AGM** The Chairman of the Committee shall be available to answer questions about the Committee's activities at the Annual General Meeting of the Company.

**(G) Other**

- **Auditors** The Committee shall ensure co-ordination of the internal and external auditors;
- **Laws and Regulations** The Committee shall give due regard to the UK Code on Corporate Governance, UK Listing Authority's Listing, Prospectus and Disclosure and Transparency rules and any other applicable rules as appropriate;
- **Terms of Reference** The Committee shall make available these terms of reference on request and by including the information on the Company's website;
- **Performance review** The Committee shall at least once a year conduct an internal review and at least once every three years use external resources to review its own performance, composition and terms of reference and ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary to the Board for approval; and
- **Annual Report** The Committee 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
- **Other matters** The Committee shall consider any other matters referred to it by the Board.