

**Victrex plc ('the Company' or 'the Group' as appropriate)**  
**Terms of Reference for the Audit Committee**  
**Approved October 2017**

The Audit Committee ('the Committee') is a committee of the Board of Directors of Victrex plc (the Board), from which it derives its authority and to which it regularly reports.

*Duties*

1. The duties of the Committee shall be:

External Audit

- a) to oversee all matters associated with the appointment, terms, remuneration and performance of the external auditor as set out in Appendix 1;
- b) to consider, review and approve if appropriate the provision of non-audit services by the external auditor in accordance with the policy set out in Appendix 2;
- c) to review on an annual basis the policy, set out in Appendix 2, for the provision of non-audit services by the external auditor;

Financial Reporting

- d) to monitor and discuss with management and the external auditor the integrity of the Company's financial statements, preliminary announcements and any formal announcements relating to financial performance, or other statements containing financial information, before submission to the Board for endorsement, focusing particularly on:
  - i) the quality and appropriateness of;
    - accounting policies and practices, including but not limited to, the critical accounting policies and changes to accounting policies and practices; and
    - financial reporting disclosures and changes thereto.
  - ii) areas involving significant judgement, estimation or uncertainty in the Company's financial results;
  - iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - iv) the clarity and completeness of disclosures and whether the disclosures provided are set in context;
  - v) significant adjustments resulting from the audit;
  - vi) misstatements reported to the Committee by the auditor that individually or in aggregate have not been adjusted and management's explanations as to why they have not been adjusted;
  - vii) possible impairments to the Company's assets;
  - viii) the basis for the going concern assumptions and the viability statement;
  - ix) compliance with financial reporting standards and relevant financial and governance reporting requirements;
  - x) related information presented in conjunction with the full year financial statements including the strategic report and governance statements relating to the audit and to risk management;
  - xi) compliance with stock exchange and legal requirements; and
  - xii) where requested by the Board, the Committee should provide advice on whether the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

#### Internal Audit:

- e) to monitor and review the effectiveness of the activity of the Internal Audit function including the approval of the appointment or the dismissal of respectively the Director of Risk and Compliance and the Internal Auditor;
- f) review and approve the Internal Audit Charter having regard to the complementary roles of Internal Audit and the external auditor;
- g) to ensure the Internal Audit function has adequate resources and access to information to enable it to fulfill its Charter and annual plan, and is equipped to perform in accordance with appropriate professional standards;
- h) review the work of the Internal Audit function, including:
  - ensure that both the Director of Risk and Compliance and the Internal Auditor have direct access to the Chairs respectively of the Board and the Committee, and access and are accountable to the Committee;
  - review and approve an annual plan for Internal Audit, mindful also of the scope of the overall work plan of the external auditor (see Appendix 1);
  - receive reports on the results of work undertaken by the Internal Auditor on a periodic basis;
  - review and monitor management's responsiveness to the findings and recommendations. This should include results from testing and follow up carried out by Internal Audit on outstanding recommendations from previous assessments;
  - meet with the Internal Auditor at least once a year without the presence of management; and
  - monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Company's risk management systems.

#### Internal Controls and Risk Management Systems:

- i) review the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and the Company's internal control, compliance and risk management systems;
- j) the Company's management are responsible for the identification, assessment, management and monitoring of risk, (including financial risk) for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so. The Committee should receive reports from management in response to the conclusions and findings from any testing carried out by Internal Audit and external auditors;
- k) review and approve the statements included in the annual report in relation to internal control and the management of risk;
- l) from time to time consider as appropriate, whether an independent third party review of the effectiveness of the internal audit function should be carried out.

#### Whistleblowing:

- m) to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- n) ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

#### Other:

- o) to approve Directors' and Officers' liability insurance, if delegated by the Board;
- p) to consider other topics, as defined by the Board.

#### *Membership*

1. The Committee shall comprise at least three independent non-executive Directors of the Company (excluding the Company Chairman). At least one member of the Committee shall have recent and relevant financial experience and the Committee as a whole should have competence relevant to the sector in which the Company operates. A quorum shall be two members.
2. The Chairman of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee. Other appointments to the Committee should be made by the Board on the recommendation of the Nomination Committee and in consultation with the Audit Committee Chair.
3. Committee appointments shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to remain independent.
4. The Company shall provide an induction programme for new Committee members and shall provide on-going training to existing Committee members which should include an understanding of the principles of and developments in financial reporting and related company law.
5. The Committee will make available these terms of reference, setting out its delegated responsibilities which should be reviewed and where necessary updated annually.

#### *Attendance at meetings*

1. Only Committee members are entitled to attend a meeting. The Company Chairman, Finance Director, the Group Financial Controller, the Director, Risk and Compliance and the External Audit Engagement Director/Partner shall, however, normally be invited to attend meetings. Others may also be invited to attend. At least once a year the Committee shall meet with the external auditors without management present.
2. The Group Company Secretary shall be the Secretary of the Committee and the Committee shall have access to the Secretary on all Committee matters. With the consent of the Chairman of the Audit Committee the Group Company Secretary may nominate an alternative.

#### *Frequency of meetings*

1. Meetings shall be held not less than three times a year. The external auditor may request a meeting if they consider that one is necessary. The Group Company Secretary should ensure that the Audit Committee receives information and papers on a timely basis to enable full and proper consideration to be given to issues.
2. A sufficient interval should be allowed between the meeting of the Committee and that of the Board to allow any work arising at the meeting of the Committee to be carried out and reported to the Board as appropriate.
3. The Chairman of the Committee and to a lesser extent other members of the Committee should keep in contact on a continuing basis with the key people involved in the Company's governance; including; the Chairman, the Chief Executive, the Finance Director and the External Audit Engagement Director/Partner.

#### *Authority*

1. The Committee is authorised by the Board to investigate any activity it deems necessary to carry out its duties. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
2. The Committee is authorised to incur expenditure in obtaining independent accounting, legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### *Reporting procedures*

1. The Secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.
2. The Committee shall report its activities, including how it has discharged its responsibilities, to the Board on a regular basis. This includes, but is not limited to:
  - a. the process the Committee has been through to assesses the effectiveness of process for both the external audit and internal audit and the conclusions from these assessments;
  - b. its assessment of the effectiveness of the external audit process and make a recommendation to the Board on the appointment/re-appointment of the external auditor;
  - c. the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements (having regard to matters communicated to it by the auditor), interim reports, preliminary announcements and related formal statements;
  - d. where requested by the Board, the Audit Committee should provide advice on whether the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model viability and strategy:

Where, following its reviews, the Committee is not satisfied with any aspect of the proposed financial reporting, it shall report its views to the Board.

3. The Annual Report shall include a report covering:
  - a summary of the Committee's role;
  - names and qualifications of all Committee members during the period (including how the audit committee composition requirements have been addressed);
  - the number of Committee meetings and attendance at those meetings;
  - a report on the way the Committee has carried out its responsibilities;
  - an explanation of, or a cross-reference to, the fees paid to the external auditor for audit services, audit related services and other non-audit services, together with an explanation, for each significant non-audit service, of what the services are, why the Committee concluded that it was in the best interests of the Company to purchase them from the external auditor and how external auditor independence and objectivity has been safeguarded;
  - how the Committee's performance evaluation has been conducted;
  - an explanation of how the Committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length of tenure of the current audit firm; the current audit partner name, and for how long the partner has held the role; when a tender was last conducted; and advance notice of any retendering plans;
  - if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the Company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and for each significant engagement, or category of engagements, explain what the services are and why the Committee concluded that it was in the interests of the Company to purchase them from the external auditor;
  - an explanation of how the Committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
  - the significant issues that the Committee considered, including:
    - issues in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditors;
    - the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review team; and
    - where a Company's audit has been reviewed by the FRC's Audit Quality Review team, the Committee should discuss the findings with their auditors and consider whether any of those findings are significant and, if so, make disclosures about the findings and the

actions they and the auditors plan to take. This discussion should not include disclosure of the audit quality category.

4. The Committee shall disclose to shareholders, as early as practicable, any instance where the External Audit Engagement Director/Partner will, on grounds of audit quality, continue in position for an additional period of up to a maximum two years in excess of the usual five years and the reasons for this decision.
5. The Chairman of the Committee shall attend the AGM in order to be available to answer questions.

**Relations with the external auditor**

**Appointment, terms, remuneration and performance of the external auditor**

The Audit Committee shall oversee all matters associated with the appointment, terms, remuneration and performance of the external auditor by:

- selecting the external auditor for recommendation to the Board and appointment by shareholders;
- making recommendations on the removal of the external auditor;
- assessing annually the independence and objectivity of the external auditor in accordance with the guidelines set out in Appendix 3;
- assessing annually the qualification, expertise and resources of the external auditor;
- investigating any issues arising from the resignation of the external auditor and consider whether any action is required;
- putting the audit out to tender at least every ten years, unless the Audit Committee explicitly agree to extend this for practical reasons;
- approving the audit fee;
- approving the overall audit work plan, (with due regard for levels of materiality and proposed resources to execute the audit plan);
- reviewing with the external auditor, in the absence of management where necessary, the findings of their work, including discussion of the major audit issues arising, the key accounting and audit judgements made and levels of any errors or risks to the quality and effectiveness of the financial reporting process arising during the audit;
- reviewing the audit representation letters before signature by a director;
- reviewing the management letter and management's response to the audit findings;
- assessing on an annual basis the effectiveness of the audit process, including:
  - review and agree the engagement letter at the start of each audit and, where necessary, ensure that it has been updated to reflect changes in circumstances arising since the previous year;
  - reviewing whether the external auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditor to address those risks;
  - discussing with the auditor any major issues that arose during the conduct of the audit, the key audit firm and network level controls the auditor relied upon to address identified risks to audit quality;
  - enquiring about the conduct at the audit firm of internal and external inspections of the audit and findings (including by the FRC Audit Quality Review Team)
  - considering the robustness and perceptiveness of the external auditor in their handling of the key accounting and audit judgements identified and in responding to questions from the Committee, and in their commentary where appropriate on the systems of internal control;
  - obtaining feedback about the conduct of the audit from key people involved, including the Finance Director, and;
  - reviewing the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

**Policy for approval of the provision of non-audit services by the external auditor**

On the basis of the guidelines set out in Appendix 3, the Audit Committee has set the following policy regarding the provision of non-audit services by the current external auditor, KPMG. Note that for the period of 12 months prior to the first year of a new auditors appointment, non-audit services provided by any prospective audit firm must also follow the above approval process.

- For non-audit services with fees of less than £10,000, the Chair of the Audit Committee will be informed in advance of the service being undertaken;
- Approval is required from the Chair of the Audit Committee for all individual non-audit services with fees of between £10,000 and £20,000;
- Approval is required in advance from the Audit Committee for all individual non-audit services with fees of £20,000 or more;
- Approval is only required from the Audit Committee in advance for all individual non-audit services with fees of less than £20,000, once the cumulative amount of such fees exceeds £20,000 in the financial year;
- No approval is required from the Audit Committee in respect of fees for pension scheme audits, interim fee reviews and the iXBRL tagging of financial statements; and
- No approval shall be given to any non-audit services not in accordance with the APB's Ethical Standards for auditors, as then in effect.

**Guidelines for ensuring the independence and objectivity of the external auditor**

The Audit Committee shall ensure the independence and objectivity of the external auditor annually, taking into consideration relevant UK professional and regulatory requirements. This assessment of independence should include:

- consideration of all the relationships between the Company and the external auditor (including the provision of non-audit services);
- obtaining assurance that the external auditor and their staff have no family, financial, employment, investment or business relationship with the Company (other than in the normal course of business);
- obtaining information from the external auditor regarding its policies and processes for maintaining independence and monitoring compliance with relevant requirements, including requirements regarding the rotation of audit partners/directors and staff;
- agreeing with the Board, the Company's policy for the employment of former employees of the external auditor, which is that no individuals formerly employed by the external auditor, and directly or indirectly involved on the audit within the last two years, shall be employed by the Company without the prior approval of the Audit Committee;
- monitoring the external auditor's compliance with relevant UK ethical guidance, relating to the rotation of audit partners/directors,
- negotiate and agree the statutory audit fee and consider any other fees the Company pays to the external auditor in proportion to the overall fee income of the firm, office and partner/director and other related regulatory requirements;
- consideration as to whether the provision of non-audit services by the external auditor could impair the external auditor's independence or objectivity, by considering the following general and ethical guidelines:
  - whether the skills and experience of the external auditor make it a suitable supplier of the non-audit service under consideration;
  - whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
  - the nature of the non-audit services, the related fee levels individually and in aggregate relative to the audit fee;
  - the criteria which govern the compensation of the individuals performing the audit;
  - in principle the external auditor should not provide any service which:
    - results in the external auditor auditing its own firm's work;
    - leads to the external auditor making management decisions for the Company;
    - creates a mutuality of interest or;
    - leads to the external auditor being put in the role of advocate for the Company.