
Terms of Reference for the Audit Committee of Victrex plc

Approved and adopted by the Board of Directors of Victrex plc (**Company**) to take effect from 1 October 2020.

1. CONSTITUTION

- 1.1. The audit committee (**Committee**) is a committee of the board of directors (**board**) of the Company.
- 1.2. The Committee has the delegated authority of the board in respect of the functions and powers set out in these terms of reference.
- 1.3. The Terms of Reference of All Board Committees applies unless stated otherwise.

2. ROLE

The role of the Committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1. The integrity of the financial and narrative statements and other financial information provided to shareholders.
- 2.2. The Company's system of internal controls and risk management.
- 2.3. The internal and external audit process and auditors.
- 2.4. The processes for compliance with laws, regulations and ethical codes of practice.

3. DUTIES AND TERMS OF REFERENCE

The Committee shall have oversight of the Company and its subsidiaries (**Group**) as a whole and (unless required otherwise by regulation) carry out the following duties for the Group as appropriate:

3.1. Financial reporting

The Committee shall:

- 3.1.1. monitor the integrity of the financial statements of the Group, including:
 - 3.1.1.1. the annual and half-yearly reports;
 - 3.1.1.2. interim management statements;
 - 3.1.1.3. preliminary results announcements; and
 - 3.1.1.4. any other formal statements relating to its financial performance;
- 3.1.2. review and report to the board on significant financial reporting issues and judgements which the financial statements, interim reports, preliminary announcements and related formal statements contain having regard to matters communicated to it by the external auditor;
- 3.1.3. review and challenge where necessary:
 - 3.1.3.1. the application and appropriateness of significant accounting policies, and any changes to them both on a year on year basis and across the Company and the Group;
 - 3.1.3.2. whether the Company has made appropriate estimates and judgements, taking into account the external auditor's views;

- 3.1.3.3. the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the Company and the external auditor;
- 3.1.3.4. the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;
- 3.1.3.5. significant adjustments resulting from the external audit; and
- 3.1.3.6. the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);
- 3.1.4. monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements;
- 3.1.5. review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;
- 3.1.6. review first any other statements that contain financial information and require board approval, if carrying out a review before board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook; and
- 3.1.7. where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the board.

3.2. **Narrative reporting**

Where requested by the board, the Committee shall review the content 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 and whether it informs the board's statement in the annual report on these matters that is required under Provision 25 of the UK Corporate Governance Code.

3.3. **Risk management systems and internal controls**

The Committee shall:

3.3.1. **Risk management**

- 3.3.1.1. On behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and, at least annually, carry out a review of their effectiveness, and review and approve the statement to be included in the annual report concerning internal risk management and the viability statement;

- 3.3.1.2. On behalf of the board, ensure that a robust assessment of the emerging and principal risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency or liquidity and reputation), that procedures are in place to identify emerging risks and provide advice on the management and mitigation of those risks;
- 3.3.1.3. Oversee and advise the board on the Group's current risk exposure and future risk strategy and annually consider how the remuneration of executives shapes their view of risk, in conjunction with consideration by other relevant Committees;
- 3.3.2. **Internal controls**
review the Company's internal financial controls and internal control systems and, at least annually, carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control;
- 3.3.3. **On-going viability**
where requested by the board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;
- 3.3.4. **Management and internal and external audit reports**
 - 3.3.4.1. review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively;
 - 3.3.4.2. review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation;
- 3.3.5. **Disclosures**
 - 3.3.5.1. consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and
 - 3.3.5.2. consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;

3.3.6. Internal audit

- 3.3.6.1. approve the appointment and removal of the Group Head of Internal Audit;
- 3.3.6.2. review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring that it is appropriate for the Company's current needs;
- 3.3.6.3. review and approve the annual internal audit plan to ensure it is aligned to the Company's key risks and receive regular reports on work carried out;
- 3.3.6.4. ensure that the internal audit function has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions;
- 3.3.6.5. ensure the internal audit function has direct access to the board chair and to the Committee chair, and is accountable to the Committee;
- 3.3.6.6. review and assess the annual internal audit plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors;
- 3.3.6.7. receive a report on the results of the internal auditor's work on a periodic basis;
- 3.3.6.8. determine whether it is satisfied that the quality, experience and expertise of internal audit are appropriate for the business;
- 3.3.6.9. review and monitor management's responsiveness to the internal auditors' findings and recommendations and management's actions to support the effective working of the internal audit function;
- 3.3.6.10. monitor and review the role and effectiveness of the Company's internal audit function in the context of the Company's overall risk management system, and the work of compliance, finance and the external auditor, ensuring that the internal audit plan is aligned to the business's key risks;
- 3.3.6.11. ensure that there is open communication between the different functions and that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its internal audit plan;
- 3.3.6.12. ensure that the Committee meets with the Group Head of Internal Audit to discuss effectiveness of the internal audit function, without management present, at least once annually; and
- 3.3.6.13. consider whether an independent, third party review of internal audit effectiveness and processes is required.

3.4. External audit

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Standard's Revised Ethical Standard 2016 (**Ethical Standard**):

3.4.1. Appointment, reappointment and resignation

- 3.4.1.1. consider and make recommendations to the board, to be put to shareholders for approval at the Company's AGM, on the appointment, reappointment or removal of the Company's external auditors;
- 3.4.1.2. ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 3.4.1.3. if any external auditor resigns, investigate the issues leading to this and decide whether any action is required; and
- 3.4.1.4. evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee and consider the need to include the risk of the withdrawal of the external auditor from the market in that evaluation;

3.4.2. Terms of engagement

Oversee the relationship with the external auditor and negotiate and agree their terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and, in consultation with the executive directors, agree and approve their remuneration (including fees for both the audit and non-audit services) to ensure that the level of fees is appropriate to enable an effective and high quality audit to be undertaken;

3.4.3. Independence and expertise

- 3.4.3.1. review and assess on an annual basis:
 - 3.4.3.1.1. the external auditor's independence and objectivity taking into account the relevant UK law, the Ethical Standard and other professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards to mitigate those threats including the provision of any non-audit services; and
 - 3.4.3.1.2. the qualifications, expertise and resources of the external auditor and, taking into account relevant UK professional and regulatory requirements, the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 3.4.3.2. seek reassurance from the external auditor and their staff and satisfy itself that they have no relationships with the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 3.4.3.3. at least annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff;

3.4.3.4. agree with the board the Company's policy on employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements and monitor the application of this policy;

3.4.4. Fees of external auditor

monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of the legal, professional and regulatory requirements, guidance and the Ethical Standard;

3.4.5. Non-audit services

3.4.5.1. develop and recommend to the board, and implement, the Company's formal policy on the external auditor's provision of non-audit services, including the Committee's approval of non-audit services and the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include assessment of:

3.4.5.1.1. threats to the external auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats;

3.4.5.1.2. the nature of the non-audit services;

3.4.5.1.3. in light of the external audit firm's skills and experience, whether it is the most suitable supplier of the non-audit service;

3.4.5.1.4. the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and

3.4.5.1.5. the criteria governing compensation of the individuals performing the audit;

3.4.5.2. ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process; and

3.4.5.3. keep the policy for the provision of non-audit services under review (the current policy for the provision on non-audit services is set out in the Appendix);

3.4.6. Audit cycle

3.4.6.1. review and approve the annual audit plan at the start of the audit cycle and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

3.4.6.2. meet regularly with the external auditor (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 the executive directors or management being present, to review and discuss the auditor's remit and the findings of the audit including (but not limited to) any major resolved or unresolved issues that arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their

- interactions with senior management and levels of errors identified during the audit and levels of errors identified during the audit;
- 3.4.6.3. consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor;
 - 3.4.6.4. review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate;
 - 3.4.6.5. review, before its consideration by the board, the external auditor's report to the directors and their management letter, including management's response to the auditor's findings and recommendations;
 - 3.4.6.6. at the end of the audit cycle, assess the effectiveness of the audit process including:
 - 3.4.6.6.1. reviewing whether the auditor has met the agreed audit plan and whether the external auditor identified any risks to audit quality and, if so, how these were addressed;
 - 3.4.6.6.2. understanding reasons for changes to the audit plan;
 - 3.4.6.6.3. considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions;
 - 3.4.6.6.4. obtaining feedback from key people on the conduct of the audit; and
 - 3.4.6.6.5. reviewing and monitoring the content of the external auditor's management letter and reporting to the board on the effectiveness of the audit process;

3.4.7. Other matters

- 3.4.7.1. be responsible for the co-ordination between the activities of the external auditor and the internal audit function; and
- 3.4.7.2. assess and make recommendations through the board to the shareholders on whether the Company should enter into a liability limitation agreement with its external auditor;

3.5. Whistleblowing

The Committee shall review the adequacy and security of the Company's arrangements for its workforce to raise concerns, in confidence and anonymously, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

3.6. Compliance

The Committee shall review the Company's systems and controls for ethical behaviour and the prevention of bribery and receive reports on non-compliance.

4. MEMBERSHIP

- 4.1. The Committee as a whole should have competence relevant to the sector in which the Company operates.
- 4.2. At least one member of the Committee shall have recent and relevant financial experience.

- 4.3. The chair of the board shall not be a Committee member unless exceptional circumstances apply such as when there is a vacancy among the non-executive directors, but may be invited to attend its meetings. The chair of the board shall not chair the Committee.

5. ATTENDANCE AT MEETINGS

- 5.1. The Committee shall meet at least three times a year at appropriate times in the Company's financial reporting and audit cycle.
- 5.2. Outside of the formal meeting programme, the Committee chair shall maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Chief Executive Officer, the Chief Finance Officer, the external audit lead partner and the Group Head of Internal Audit.
- 5.3. Only Committee members have the right to attend and vote at Committee meetings. However, the Board Chair, executive directors, the external audit lead partner, the Group Financial Controller, the Director of Risk & Compliance and the Group Head of Internal Audit shall be invited to attend and address meetings of the Committee on a regular basis by invitation and other non-members may be invited to attend all or part of any meetings as and when appropriate and necessary with the agreement of the Committee chair. The Committee chair shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings.

6. NOTICE OF MEETINGS

The Chief Financial Officer, external audit lead partner or the Group Head of Internal Audit may also request that a meeting of the Committee is called.

7. REPORTING RESPONSIBILITIES

The Committee shall:

- 7.1. Prepare a formal report on its activities and how the Committee has discharged its responsibilities to be included in the Company's annual report, which shall include:
- 7.1.1. the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the Company's audit conducted by the Financial Reporting Council's Audit Quality Review team;
 - 7.1.2. confirmation that the board has carried out a robust assessment of the principal and emerging risks facing the Company, a description of its principal risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated;
 - 7.1.3. an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Group, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans (and reasons why

completing the process in that proposed financial year is in the best interests of the Company's members) and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;

- 7.1.4. the Committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit 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, what the services are and why the Committee concluded that it was in the Company's interests to purchase them from the external auditor;
 - 7.1.5. an explanation of how the Committee has addressed the effectiveness of the internal audit process;
 - 7.1.6. all other information requirements set out in the UK Corporate Governance Code; and
 - 7.1.7. any other issues on which the board has requested the Committee's opinion.
- 7.2. In compiling the report referred to in Paragraph 7.1, exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the board's assessment of whether the Company is a going concern and the longer term viability statement.
- 7.3. If the board does not accept the Committee's recommendation regarding the appointment, reappointment or removal of the external auditors, include a statement explaining its recommendation and reasons why the board has taken a different stance in the annual report referred to in Paragraph 7.1.

8. GENERAL MATTERS

The Committee shall work and liaise as necessary with all other board committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees.

9. AUTHORITY

The board authorises the Committee to collectively and individually have direct access to the Chief Financial Officer, the Group Head of Internal Audit and the Company's external auditors.

Appendix

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

The Audit Committee re-approved the following policy with effect from 1 October 2020 regarding the provision of non-audit services by the current external auditor, PWC. 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 this 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.