



Costain Group PLC
Audit Committee - Terms of Reference

1. Definitions

In these Terms of Reference:

references to **"the Board"** shall mean the board of directors of the Company;

references to **"the Chair of the Committee"** shall mean the Chair of the Audit Committee;

references to **"the Chair of the Company"** shall mean the Chair of the Company;

references to **"the Chief Executive"** shall mean the Chief Executive of the Company;

references to **"the Chief Financial Officer"** shall mean the Chief Financial Officer of the Company;

references to **"the Code"** shall mean the 2018 UK Corporate Governance Code;

references to **"the Committee"** shall mean the Audit Committee;

references to **"the Company"** shall mean Costain Group PLC; and

references to **"directors"** means the directors of the Board.

2. Role

The role of the Committee is primarily to review and monitor the integrity of the financial reporting by the Company, to review the Company's internal control and risk management systems, to monitor and review the effectiveness of the Company's internal audit function, to oversee the relationship with the Company's external auditor and report to the shareholders on its activities.

3. Membership

3.1 The Committee shall be appointed by the Board, on recommendation by the Nomination Committee, and shall comprise the Chair of the Committee and at least two other members.

3.2 All members of the Committee shall be independent non-executive directors. The Chair of the Company should not be a member of the Committee.

3.3 At least one member of the Committee (preferably the Chair of the Committee) should have recent relevant financial experience and risk expertise and the Committee as a whole shall have competence relevant to the sector in which the Company operates.

- 3.4 The Board shall appoint the Chair of the Committee, who shall be an independent non-executive director. In the absence of the Chair of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these Terms of Reference to be appointed to that position by the Board.
- 3.5 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- 3.6 Only members of the Committee have the right to attend Committee meetings. However, the Chief Financial Officer, Head of Internal Audit, external audit lead partner and Group Risk Manager will be asked or invited to attend meetings of the Committee on a regular basis and other individuals may be asked or invited to attend all or part of any meeting as and when appropriate.
- 3.7 Appointments to the Committee shall be for a period of up to three years. This period may be extended for two additional periods of up to three years, provided members continue to be independent. The membership of the Committee, and the identity of any members of the Committee who have recent relevant financial experience, shall be disclosed in the Company's Annual Report. A description of the Committee's duties and activities shall also be disclosed in the Annual Report.

4. Secretary

The Company Secretary, or their nominee, shall act as the Secretary of the Committee (the "**Secretary**"). The Secretary will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

5. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

6. Frequency of Meetings

- 6.1 The Committee shall meet not less than four times a year and at such other times as may be required. The Chair of the Committee may request that a meeting should be held at any time. Any other member of the Committee, the Chair of the Company, the Chief Executive, the Chief Financial Officer, the external auditors and the Head of Internal Audit may each request the Chair of the Committee to convene a meeting at any time.
- 6.2 Meetings will be arranged to tie in with the publication of the Company's financial statements and audit cycle, allowing (wherever possible) at least three working days prior to a Board meeting where accounts or financial statements are to be approved.
- 6.3 Outside of the formal meeting programme, the Chair of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chair

of the Company, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the Head of Internal Audit.

7. Notice of Meetings

- 7.1 Meetings of the Committee shall be summoned by the Secretary on the instruction of the Chair of the Committee taking account of any requests made by the individuals listed in paragraph 6.1.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and to any other person required to attend, on reasonable notice and no fewer than three working days prior to the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

8. Minutes of Meetings

- 8.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2 Draft minutes of Committee meetings shall be circulated to all members of the Committee promptly. Once approved by the Committee, minutes of the Committee meeting should be circulated to the members of the Committee, other members of the Board and to the Company Secretary, unless, exceptionally, it would be inappropriate to do so.

9. Engagement with shareholders

The Chair of the Committee shall attend the Annual General Meeting of the Company prepared to respond to any shareholder questions on the activities of the Committee. In addition, the Chair of the Committee should seek engagement with shareholders on significant matters relating to the Committee's areas of responsibility.

10. Duties

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the Company, its subsidiary undertakings and the Group as a whole, as appropriate.

Compliance, speaking-up and fraud

- 10.1 To keep under review legislative and regulatory compliance activities, including the development of appropriate procedures, periodically monitoring the adequacy of compliance arrangements within the Company. This shall include:
- (A) reviewing the adequacy and security of the arrangements within the Company for its employees, contractors and external parties to raise concerns, in confidence, 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;

- (B) reviewing the Company's procedures for detecting fraud and systems and controls for the prevention of bribery; and
- (C) receiving and reviewing regular reports (including on non-compliance) and keeping the Company's compliance function under review.

Internal Control and Risk Assessment

10.2 The Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, management, monitoring and reporting of risks. The Committee shall review updates to the Group Risk Plan and its supporting Group Risk Register every six months.

10.3 To keep under review the effectiveness of internal control systems (including financial, operational compliance and risk management) and other relevant activities with the aim of ensuring that there is within the business:

- (A) a defined process for the review of the effectiveness of internal controls;
- (B) regular reporting by management on their monitoring of internal controls;
- (C) a process for considering key risks to business objectives and how they are managed;
- (D) checking of the adequacy of actions taken to remedy weaknesses and incidents;
- (E) consideration of the adequacy of monitoring the Company's effective application of the Company's procedures in respect of internal controls and risk management; and
- (F) an annual assessment of risks and the effectiveness of internal controls timed to allow the Board to make statements in the Annual Report. The Committee shall also review any statements prepared by the Board on internal control systems prior to the Board endorsing such statements, including the assessment of principal risks and emerging risks, and the viability statement.

10.4 The Chair of the Committee will report to the Board on the matters described in this paragraph following each meeting of the Committee.

Internal Audit

10.5 The Committee shall consider applications for the post of, and approve the appointment of, the Group Risk Manager and the Head of Internal Audit. The removal of these post holders should be considered by the Committee.

- 10.6 The Committee shall consider and approve the terms of reference of the internal audit function, and shall be advised of the planned programme of audits and the reason for any change or delay in the programme. The Committee shall also keep under review the resources available to the internal audit function and shall encourage co-ordination between the internal audit function and the Company's external auditors.
- 10.7 The Committee shall carry out an annual assessment of the effectiveness of the Company's internal audit function and as part of this assessment:
- (A) meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the internal audit function;
 - (B) review and assess the annual internal audit work plan;
 - (C) determine whether it is satisfied that the quality, experience and expertise of the internal auditors is appropriate for the Company; and
 - (D) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- 10.8 The Committee shall monitor and review the 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 auditors.
- 10.9 The Committee shall ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure that there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors.
- 10.10 The Committee shall review promptly all reports on the Company from the internal auditors. Such reports will be prepared every three months.
- 10.11 The Committee shall consider whether an independent, third party review of the internal audit function processes is appropriate.
- 10.12 The Group Risk Manager and the Head of Internal Audit shall report to and be given the right of direct access to the Chair of the Committee.

External Audit

- 10.13 The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, as regards the appointment, reappointment and removal of the Company's external auditors.
- 10.14 The Committee shall oversee the selection procedure of the appointment of the audit firm in accordance with applicable Code and regulatory requirements ensuring that all tendering firms have access to all necessary information and individuals during the

tendering process. Subject to any transitional arrangements, the Committee shall 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 external 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.

- 10.15 The Committee shall meet with the external auditors at least twice each year, once at the planning stage, where the scope of the audit will be considered, and once post audit at the reporting stage, and shall ensure that any auditors' management letters and management's responses are reviewed. Adequate time will be set aside, normally at each meeting, for private discussion with the auditors.
- 10.16 The Committee shall keep under review the relationship with the external auditor including (but not limited to):
- (A) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of each audit;
 - (B) approval of their remuneration, including audit fees which should be paid as well as any other fees which are payable to external auditors in respect of non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (C) annual assessment of the independence of the external auditor and the objectivity and effectiveness of the audit process, taking into account relevant law, regulation and other professional standards and requirements and the Group's relationship with the external auditors as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats and the provision of any non-audit services;
 - (D) monitoring the external auditor's processes for maintaining independence, its compliance with relevant law, regulation and other professional standards and requirements (including guidance on the rotation of audit partner and staff);
 - (E) ensuring that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence or objectivity;
 - (F) monitoring 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 relevant legal, professional and regulatory standard and requirements;
 - (G) discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-a-vis the Company's internal auditing standards; and

- (H) developing and implementing policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.
- 10.17 The Committee shall review the activities, findings, conclusions and recommendations of the external auditors and confirm, through discussion and by review of the annual audit letter, that there exists between the Company and the external auditors no unresolved issues of concern in relation to the Group.
- 10.18 The Committee shall periodically assess the qualifications, expertise, resources and effectiveness of the external auditors.
- 10.19 The Committee shall develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the external auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit services to be pre-approved. The Committee shall assess whether non-audit services have a direct or material effect on the audited financial statements. The policy shall include consideration of the following matters:
- (A) threats to independence and objectivity of the external auditor and any safeguard in place;
 - (B) the nature of the non-audit services;
 - (C) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (D) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (E) the criteria governing compensation.
- 10.20 The Committee shall review any audit representation letters requested by the external auditors before they are signed by management.
- 10.21 The Committee shall review the management letter and management's responses to the auditors' findings and recommendations.
- 10.22 The Committee shall investigate any issues leading to the resignation of external auditors and decide whether any action is required.

Financial reporting

- 10.23 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal announcements or statements relating to its financial performance, review and report to the Board on any significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor. The Committee shall also review all material information presented with the financial

statements (including the strategic report and the corporate governance statement relating to audit and risk management, the summary financial statements, significant financial returns to regulators) and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

- 10.24 The Committee shall keep under review the consistency of, and any changes to, accounting policies both on a year-to-year basis and across the Company/Group.
- 10.25 The Committee shall review and challenge where necessary the Company's financial statements taking into account:
- (A) the application of significant accounting policies and any changes to them;
 - (B) decisions requiring a major element of judgement;
 - (C) the extent to which the financial statements are affected by any unusual transactions;
 - (D) the clarity and completeness of disclosures and the context in which statements are made;
 - (E) significant adjustments resulting from the audit;
 - (F) the appropriateness of the going concern statement to be made by the Board;
 - (G) the appropriateness of accounting policies selected, the consistency with which they are applied and any changes in accounting policies and practice, particularly the methods used to account for significant or unusual transactions where different approaches are possible;
 - (H) compliance with Stock Exchange, FCA's Listing Rules, Disclosure Guidance and Transparency Rules sourcebook and other legal requirements; and
 - (I) reviewing the Company's statement on internal control systems and risk management prior to endorsement by the Board and reviewing the policies and process for identifying and assessing business risks and the management of those risks by the Company, taking into account the external auditor's views on the financial statements.
- 10.26 The Committee shall review the annual financial statements of the Company's pension funds where not reviewed by the Board as a whole.
- 10.27 The Committee shall review any other statement requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation (including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook).

- 10.28 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

Narrative reporting

- 10.29 Where requested by the Board, the Committee should 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 the Code.

Conflicts of Interest

The Committee shall:

- 10.30 in respect of each director, review any interests the director may have which conflict or may conflict with the interests of the Company;
- 10.31 make recommendations to the Board as to whether any such conflict should be authorised and, if so, as to the terms and conditions on which any such authorisation should be given by the Board;
- 10.32 review on an annual basis any authorisation given by the Board in order to determine whether the authorisation given should stand on the terms and conditions on which it has been given or whether additional terms and conditions should be imposed or whether the authorisation should be revoked (subject to giving the relevant director notice of the proposed revocation); and
- 10.33 in the case of review of the interests of, and authorisations given by the Board to, members of the Committee, the affected director shall not participate in the review or in discussions or decisions of the Committee which relate to that director.

General

Without prejudice to the foregoing, the Committee shall:

- 10.34 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of last resort;
- 10.35 be responsible for co-ordination of the internal and external auditors;
- 10.36 ensure that the Chief Financial Officer and the Company's external auditors discuss with the Committee their qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the Company and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates;

- 10.37 inquire into the Company's external auditors' qualitative judgments about the appropriateness, not just the acceptability, of the accounting policies and the clarity of the financial disclosure practices used or proposed to be adopted by the Company and the context in which statements are made;
- 10.38 review internal and external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- 10.39 review the Treasury Policy of the Company including but not limited to the Company's management of interest rates and currency risks arising from its operations and sources of finance and the Company's transactional currency exposure arising from its commercial activities overseas;
- 10.40 review reports on major defalcations frauds and thefts from the Company and management's response (in the absence of management where necessary); and
- 10.41 review related party transactions and consider the adequacy of disclosure of those transactions in the Annual Report.

11. Reporting Responsibilities

- 11.1 The Committee or its Chair shall meet formally with the Board and report after each meeting on all matters within its duties and responsibilities.
- 11.2 The Committee shall report to the Board on how it has discharged its responsibilities. This report shall include:
 - (A) the significant issues that the Committee considered in relation to the financial statements and how these were addressed;
 - (B) an explanation of how the Committee has assessed the independence and effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditors, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - (C) any other issues on which the Board has required the Committee's opinion.
- 11.3 In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate and shall compile a report to shareholders to be included in the Annual Report. The report should include:
 - (A) a summary of the role of the Committee;
 - (B) the names and qualifications of all members of the Committee during the period;
 - (C) the number of Committee meetings;

- (D) the significant issues that it considered in relation to the financial statements, and how these issues were addressed;
 - (E) an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
 - (F) if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded, having regard to the matters communicated to it by the auditor and all other information requirements set out in the Code.
- 11.4 In compiling the reports referred to in paragraphs 11.2 and 11.3, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial 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 and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the Annual Report and accounts but could provide cross-references to that information.

12. Authority

- 12.1 The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.
- 12.2 The Committee has delegated authority from the Board in respect of the functions and powers set out in these Terms of Reference. The Committee may sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 12.3 The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the Group.
- 12.4 The Committee is authorised by the Board to obtain, at the Company's expense (within any budgetary restraints imposed by the Board), outside legal or other professional advice on any matters within these Terms of Reference.
- 12.5 The Committee shall also have the right to publish in the Annual Report, details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the recommendation of the Committee on the external auditor's appointment, reappointment or removal, the Annual Report should include a statement explaining the recommendation of the Committee and the reasons why the Board has taken a different position.

13. Other Matters

The Committee shall:

- 13.1 oversee any investigation of activities which are within these Terms of Reference;
- 13.2 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for advice and assistance as required;
- 13.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 13.4 give due consideration to all laws and regulations, the provisions of the Code and the requirements of the FCA's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 13.5 work and liaise as necessary with all other board committees ensuring interaction between committees and with the Board is reviewed regularly; and
- 13.6 ensure that a periodic evaluation of its own performance is carried out and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

CHAIR

8 JULY 2020