



Costain Group PLC Audit Committee - Terms of Reference

1. Definitions

In these Terms of Reference:

references to “the **Committee**” shall mean the Audit Committee;

references to “**the Board**” shall mean the board of directors of Costain Group PLC;

references to “**the Chairman of the Committee**” shall mean the Chairman of the Audit Committee; and

references to “**the Chairman of the Company**” shall mean the Chairman of Costain Group PLC.

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 and attendance

- 3.1 The Committee shall be appointed by the Board, on recommendation by the Nomination Committee, and shall comprise the Chairman of the Committee and at least two other members.
- 3.2 All members of the Committee shall be independent non-executive directors. The Chairman of the Company should not be a member of the Committee.
- 3.3 At least one member of the Committee (preferably the Chairman of the Committee) should have recent relevant financial experience.
- 3.4 The Board shall appoint the Chairman of the Committee, who shall be an independent non-executive director. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 3.5 The Committee may ask the Chief Executive, the Finance Director and any relevant senior management to attend meetings either regularly or by invitation, but they shall have no right of attendance.
- 3.6 The Committee shall ask a representative of the external auditors, the Group Risk Manager and the Head of Internal Audit to attend meetings, as appropriate.

3.7 Appointments to the Committee shall be for a period of up to three years. This period may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.

3.8 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 his/her nominee shall act as the Secretary of the Committee (the "**Secretary**").

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 the Chairman of the Committee shall require.

6.2 Meetings will be arranged to tie in with the publication of the Company's financial statements, allowing (wherever possible) at least three working days prior to a Board meeting where accounts or financial statements are to be approved.

6.3 The Chairman of the Company and the Chairman of the Committee may each request that a meeting should be held at any time. Any other member of the Committee, the Chief Executive, the Finance Director, the external auditors and the Head of Internal Audit may each request the Chairman of the Committee to convene a meeting at any time.

7. Notice of Meetings

7.1 Meetings of the Committee shall be summoned by the Secretary on the instruction of the Chairman of the Committee or the Chairman of the Company.

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, any other person required to attend and all other non-executive directors, on reasonable notice and no fewer than three working days prior to the date of the meeting.

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 all members of the Board unless it would be inappropriate to do so.

9. Annual General Meeting

The Chairman 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.

10. Duties

Compliance

- 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.

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 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 its statement 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 statement.

- 10.4 The Chairman 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 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- 10.8 The Committee shall review the management of financial matters and focus upon the freedom allowed to the internal auditors.
- 10.9 The Committee shall review promptly all reports on the Company from the internal auditors. Such reports will be prepared every three months.
- 10.10 The Group Risk Manager and the Head of Internal Audit shall report to and be given the right of direct access to the Chairman of the Committee.

External Audit

- 10.11 The Committee shall consider and make recommendations to the Board as regards the appointment, re-appointment and removal of the Company's external auditors. Subject to any transitional arrangements, 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.
- 10.12 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.

- 10.13 The Committee shall keep under review the relationship with external auditors 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) the independence of the external auditors and the objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and the relationship with the external auditors as a whole, including the provision of any non-audit services;
 - (C) the consideration of audit fees which should be paid as well as any other fees which are payable to external auditors in respect of non-audit services;
 - (D) 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
 - (E) 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.
- 10.14 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.
- 10.15 The Committee shall periodically assess the qualifications, expertise, resources and effectiveness of the external auditors.
- 10.16 The Committee shall review any audit representation letters requested by the external auditors before they are signed by management.
- 10.17 The Committee shall review the management letter and management's responses to the auditors' findings and recommendations.

Financial Statements

- 10.18 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review 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.
- 10.19 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.

- 10.20 The Committee shall review and challenge where necessary the Company's financial statements taking into account:
- (A) decisions requiring a major element of judgement;
 - (B) the extent to which the financial statements are affected by any unusual transactions;
 - (C) the clarity of disclosures;
 - (D) significant adjustments resulting from the audit;
 - (E) the appropriateness of the going concern statement to be made by the Board;
 - (F) the appropriateness of accounting policies selected, the consistency with which they are applied and any changes in accounting policies and practice;
 - (G) compliance with Stock Exchange and other legal requirements; and
 - (H) 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.
- 10.21 The Committee shall review the annual financial statements of the Company's pension funds where not reviewed by the Board as a whole.

Fraud

- 10.22 The Committee shall review the Company's procedures for detecting fraud.

Conflicts of Interest

The Committee shall:

- 10.23 in respect of each Director, review any interests the Director may have which conflict or may conflict with the interests of the Company;
- 10.24 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;
- 10.25 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

- 10.26 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:

- 10.27 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of last resort;
- 10.28 be responsible for co-ordination of the internal and external auditors;
- 10.29 ensure that the Finance Director 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;
- 10.30 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;
- 10.31 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;
- 10.32 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;
- 10.33 review reports on major defalcations frauds and thefts from the Company and management's response (in the absence of management where necessary); and
- 10.34 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 Chairman 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.
- 11.3 Where requested by the Board, the Committee shall provide advice on whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

- 11.4 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 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.

12. Authority

The Committee is authorised:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 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 its terms of reference; and
- 12.3 to call any member of staff to be questioned at a meeting of the Committee as and when required.

13. Other Matters

The Committee shall:

- 13.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 13.2 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;
- 13.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate; and

- 13.4 on a regular basis, review its own performance, 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.

CHAIRMAN