

**FORTERRA PLC**  
**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

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Members:	As per current membership schedule
Chairman:	As per current membership schedule
Attendees (as may be invited by the Committee):	Chairman of the Board Chief Executive Officer Chief Financial Officer Head of Internal Audit Auditor of the Company Company Secretary
Frequency of meetings:	At least four meetings per annum in line with the Company's financial reporting timetable

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**1. MEMBERSHIP**

- 1.1 The audit committee (the “**Committee**”) of the board of directors (the “**Board**”) of Forterra plc (the “**Company**”, together with its subsidiary undertakings, the “**Group**”) shall be comprised of at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee of the Board in consultation with the chairman of the Committee.
- 1.2 All members of the Committee shall be Independent Non-Executive Directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. In addition to the three members, the chairman of the Board may be a member of, but not chair, the Committee if he or she was independent on appointment as chairman.
- 1.3 Only members of the Committee have the right to attend and vote at meetings of the Committee. Other individuals such as the chairman of the Board, Chief Executive Officer, Chief Financial Officer and /or other representatives from the finance function of the Company will be invited to attend all or part of any meeting of the Committee as and when appropriate and necessary.
- 1.4 The external auditor of the Company will be invited to attend meetings of the Committee on a regular basis.
- 1.5 Appointments to the Committee 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 be independent.

- 1.6 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 themselves to chair the meeting.

## **2. SECRETARY**

The Company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that members of the Committee receive information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **3. QUORUM**

The quorum necessary for the transaction of business shall be at least 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.

## **4. FREQUENCY OF MEETINGS**

- 4.1 The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

## **5. NOTICE OF MEETINGS**

- 5.1 Meetings of the Committee shall be convened by the secretary of the Committee at (a) in accordance with the agreed schedule of meetings of the Committee; (b) the request of any of its members; or (c) at the request of the external auditor of the Company or head of internal audit if they consider it necessary.
- 5.2 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 , any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall, wherever practicable, be sent to Committee members and to other attendees as appropriate, at the same time.
- 5.3 Papers required by the Committee may be provided electronically.

## **6. MINUTES OF MEETINGS**

- 6.1 The secretary of the Committee shall minute the proceedings, decisions and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

- 6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the chairman of the Committee.

## **7. ANNUAL GENERAL MEETING**

The chairman of the Committee should attend the annual general meeting of the Company prepared to answer any shareholder question on the Committee's activities.

## **8. DUTIES**

- 8.1 The Committee should carry out the duties below for the Company and the Group as a whole, as appropriate.

### **8.2 Financial reporting**

- (a) The Committee shall monitor the integrity of the financial statements of the Company and the Group, including its annual and half-yearly reports, interim management statements, preliminary results announcements and any other formal announcement relating to its financial performance and review and report to the Board on any significant financial reporting issue and judgement which they contain having regard to the matters communicated to it by the auditor of the Company. The Committee shall also review summary financial statements, significant financial returns to regulators and any significant financial information contained in other documents.
- (b) The Committee shall review and challenge where necessary:
- (i) the consistency of, and any changes to, significant accounting policies both on a year to year basis and across the Group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company and the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - (v) all material information presented with the financial statements, such as the business review and the corporate governance statements (insofar as it relates to the audit and risk management).
- (c) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.

### **8.3 Internal controls and risk management systems**

The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.
- (c) In particular, the Committee shall review:
  - (i) the policies and overall process for identifying and assessing business risks and managing their impact on the Company;
  - (ii) regular assurance reports from management, internal audit, external audit and others on matters related to risk and control; and
  - (iii) the timeliness of, and reports on, the effectiveness of corrective action taken by management.

#### 8.4 **Compliance, whistleblowing and fraud**

The Committee shall:

- (a) review the adequacy and security of the Company's arrangements for its employees and contractors 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) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery, its code of corporate conduct/business ethics and its policies for ensuring that the Company complies with relevant regulatory and legal requirements, receive reports on non-compliance and consider appropriate action.

#### 8.5 **Internal audit**

The Committee shall:

- (a) approve the appointment or termination of appointment of the head of internal audit function;
- (b) consider, review and approve the remit of the internal audit function and ensure it has the necessary resources and appropriate access to information to enable it to fulfil its function effectively and in accordance with appropriate professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is independent of management or other restrictions;
- (c) ensure the internal auditor has direct access to the chairman of the Board and to the chairman of the Committee and is accountable to the Committee;
- (d) review and assess the annual internal audit work plan;

- (e) receive a report on the results of the internal auditor's work on a periodic basis;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (g) meet with the head of internal audit at least once a year, without the presence of management, to discuss the internal audit's remit, function and any issue arising from the internal audits being carried out; and
- (h) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- (i) In addition, the head of internal audit shall be given the right of direct access to the chairman of the Board and to the chairman of the Committee.
- (j) If at any time the Company does not have an internal audit function, the Committee should consider annually whether there should be one and make a recommendation to the Board accordingly. The absence of such a function should be explained in the annual report.

## 8.6 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of the Company, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) put out to tender at least every ten years to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to relevant information and individuals during the tendering process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
  - (i) recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

- (iv) assessing any employment, investment, financial or business relationship between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- (e) 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 management being present, to discuss the auditor's remit and any issues arising from the audit;
- (f) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (g) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of errors identified during the audit;
  - (iv) the effectiveness of the audit process;
  - (v) the basis for the going concern assumption; and
  - (vi) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.

- (h) discuss any difficulties, reservations or other matters arising from the external auditors' audits (in the absence of management where necessary);
- (i) review any representation letter(s) requested by the external auditor before they are signed by management;
- (j) review the management letter and management's response to the auditor's findings and recommendations; and
- (k) develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

#### **8.7 Whistleblowing**

The Committee shall review the adequacy and security of the Company's arrangements for its employees and contractors 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.

#### **8.8 Fraud**

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

#### **8.9 Compliance**

The Committee shall:

- (a) review the Group's systems and controls for ethical behaviour and the prevention of bribery and receive reports on non-compliance;
- (b) review regular reports from the Group's money laundering officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (c) keep under review the adequacy and effectiveness of the Group's compliance function having regard to all applicable laws, including, but not limited to, the Bribery Act 2010 or the anti-bribery and corruption laws of any jurisdiction to which any member of the Group is subject and in each case any related rules, regulations and guidance.

#### **8.10 Fraud**

The Committee shall annually review the Group's procedures for detecting fraud.

### **9. REPORTING RESPONSIBILITIES**

- 9.1 The chairman of the Committee shall report formally to the Board orally or in writing on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 8.2(a)) and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph 8.6(d)(vii)) and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall, where requested by the Board, 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.
- 9.4 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.
- 9.5 In compiling the reports referred to in paragraphs 9.1 and 9.4, 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **10. OTHER MATTERS**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Rules and Transparency Rules and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with all other board committees; and



- (g) arrange for periodic reviews of its own performance 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.

## **11. AUTHORITY**

The Committee is authorised to:

- 11.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 11.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.4 have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

Updated and adopted at the board meeting of the Company held on 30 January 2018.