
AUDIT COMMITTEE

TERMS OF REFERENCE

1 **Composition and Procedure**

- 1.1 The Audit Committee shall consist of a minimum of two members, comprising a Chairman and at least one other member. The Audit Committee shall be appointed by the Board following the recommendations made by the Nomination Committee. The members of the Audit Committee for the time being shall be:

Anthony Isaacs (Committee Chairman)
George Battersby

- 1.2 Membership of the Audit Committee shall be confined to independent non-executive directors. At least one member of the Committee shall have recent and relevant financial experience.

- 1.3 The Audit Committee shall normally invite the Chairman of the Board, the Group Chief Executive Office and the Group Finance Director to attend regular meetings of the Committee, together with such other Group employees and external professional advisers as they deem appropriate.

- 1.4 The Audit Committee shall also have such meetings (or part of any regular meeting) as they deem appropriate without any Company employees or external advisers being present.

- 1.5 The Board shall appoint the Audit Committee Chairman who shall be a non-executive director. The Chairman of the Board shall not be eligible to be appointed as the Audit Committee Chairman.

- 1.6 Appointments to the Audit Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director concerned remains independent during such period.

- 1.7 The Company Secretary or his nominee shall act as the Secretary of the Audit Committee.

- 1.8 The quorum for decisions of the Audit Committee shall be two members. A duly convened meeting of the Audit 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 Audit Committee.

- 1.9 The Audit Committee shall meet not less than three times a year and at such other times as the Audit Committee Chairman shall require in order to meet the Company's financial timetable.

- 1.10 Meetings of the Audit Committee may be held by telephone.

- 1.11 Any member of the Audit Committee may request the Secretary of the Committee to convene a meeting be convened at any time. The Company's internal and external auditors may request that a meeting be convened if they deem it necessary.

- 1.12 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and any supporting papers, shall be forwarded to each member of the Audit Committee, any other person requested to attend and all other non-executive Directors, no fewer than five business days prior to the date of the meeting.

1.13 The Secretary shall minute the proceedings and resolutions of all meetings of the Audit Committee. The Secretary shall establish, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

1.14 Minutes of Audit Committee meetings shall be circulated promptly to all members of the Board.

2 **Annual General Meeting**

2.1 The Audit Committee Chairman shall attend each annual general meeting of the Company prepared to respond to any shareholder questions on the Committee's activities.

3 **Duties**

Internal Control and Risk Management

3.1 The Audit 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.

3.2 The Audit Committee shall review the Company's annual statement on its systems of internal control prior to endorsement by the Board, and in particular review:

3.2.1 the procedures for identifying business, operational, financial, compliance and other risks and controlling their impact on the Company having regard (in particular) to any significant failings or weaknesses in internal control that have been reported;

3.2.2 the actions taken to remedy any significant failings or weaknesses, including their timeliness;

3.2.3 the Company's policies for preventing or detecting fraud;

3.2.4 the Company's policies for ensuring that the Company complies with the relevant regulatory and legal requirements; and

3.2.5 the operational effectiveness of these policies and procedures.

3.3 the Audit Committee shall review the Company's procedures for detecting fraud and investigating and handling allegations from whistleblowers and ensure that arrangements are in place by which Group employees may in confidence raise concerns about possible improprieties in financial reporting, financial controls and any other matters.

Internal Audit

3.4 The Audit 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.

3.5 The Audit Committee shall consider and approve the internal audit function's terms of reference.

3.6 The Audit Committee shall consider applications for the post of and approve the appointment of the head of the internal audit function. Any termination of such appointment shall be considered by the Audit Committee.

3.7 The Audit Committee shall at the start of each audit year review the internal audit plan and ensure it is adequately resourced. The Company Secretary shall notify the

Audit Committee of any changes or delays to the planned programme of audits, together with an explanation for such changes or delays.

- 3.8 The Audit Committee shall review the management of financial matters and focus upon the freedom allowed to the internal auditors.
- 3.9 The Audit Committee shall review promptly all reports on the Company from the internal auditors.
- 3.10 The Audit Committee shall review and monitor management's responsiveness to internal audit reports.
- 3.11 The Head of Internal Audit shall have direct access to the Committee Chairman. The head of internal audit shall meet with the Audit Committee at least once a year, without management being present, to discuss their remit and any issues arising from internal audits.

External Audit

- 3.12 The Audit Committee shall consider and make recommendations to the Board in relation to the appointment and re-appointment of the Company's external auditors, and shall ensure that key partners within the audit firm are rotated from time to time. The Committee shall oversee the selection process and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- 3.13 The Audit Committee shall meet with the external auditors at least twice each year, including once at the planning stage prior to the audit to discuss its nature and scope and proposed fees, and once post audit at the reporting stage.
- 3.14 The Audit Committee shall review the external auditors' findings, including any major issues which arose during the course of the audit; key accounting and audit judgements; and levels of error identified during the audit, obtaining explanations from management and (where necessary) the auditors as to why certain errors might remain unadjusted. All errors and non-adjusting items are to be made available to the Committee.
- 3.15 The Audit Committee shall review the audit representation letter before approval by the Board, giving particular consideration to matters that relate to non-standard issues. The Committee shall also review the external auditor's management letter in order to assess whether it is based on a good understanding of the Company's business and approve management's response to it. The Committee shall monitor whether recommendations have been acted upon.
- 3.16 The Audit Committee shall assess the effectiveness of the audit process at the end of each audit, including a review of whether the external auditors met the agreed audit plan and why any changes came about, the auditors' robustness and perceptiveness in handling key account and audit judgements and in their communications with the Committee and feedback on the conduct of the audit from management.
- 3.17 The Audit Committee shall oversee the relationship with the external auditors including (but not limited to):
- 3.17.1 assessing annually their expertise, resources, independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of non-audit services;
- 3.17.2 considering the external auditors' own internal quality control procedures;

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- 3.17.3 satisfying itself that there are no relationships (such as family, financial, employment, investment or business) between the external auditors and the Company, other than in the normal course of business;
 - 3.17.4 approving the external auditors' terms of engagement for each audit;
 - 3.17.5 approving audit fees (ensuring that the level of fees is appropriate to enable the auditors to conduct an effective audit) as well as any other fees which are payable in respect of non-audit activities;
 - 3.17.6 monitoring that the provision of non-audit services by the external auditors does not impair the auditors' independence or objectivity;
 - 3.17.7 approving the employment of former employees of the external auditors;
 - 3.17.8 monitoring the external auditors' compliance with guidance on audit partner rotation, the level of fees the Company pays in proportion to the overall fee income of the firm, office and partner, and other related regulatory requirements; and
 - 3.17.9 discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made regarding the Company's internal auditing standards.

Financial Reporting

- 3.18 The Audit Committee shall monitor the integrity of the Company's financial statements, including its annual and interim reports, preliminary announcements and related formal statements, reviewing the significant financial reporting issues and judgements which they contain. Where practicable, the Committee shall review summary financial statements, significant returns to regulators and announcements containing price sensitive financial information.
- 3.19 The Audit Committee shall review and challenge where necessary:
 - 3.19.1 the consistency of accounting policies both on a year on year basis and across the Group and any changes to them;
 - 3.19.2 the extent to which the financial statements are affected by significant or unusual transactions and how they are disclosed;
 - 3.19.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the external auditors' views;
 - 3.19.4 decisions requiring a major element of judgement;
 - 3.19.5 significant adjustments arising from the audit;
 - 3.19.6 the "going concern" assumption; and
 - 3.19.7 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
- 3.20 The Audit Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

Reporting Responsibilities

- 3.21 The Committee Chairman shall report formally to the Board on its proceedings after each Audit Committee meeting.
- 3.22 In the light of its other duties, the Audit Committee shall make whatever recommendations to the Board it deems appropriate.
- 3.23 The Audit Committee shall compile a report to shareholders to be included in the Company's annual report and accounts, which shall include details of the policy and procedure for the approval of non-audit services.

Other Matters

- 3.24 The Audit Committee shall oversee any investigation of activities which are within its terms of reference.
- 3.25 The Audit Committee shall, on an annual basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness, and make any appropriate recommendations to the Board.
- 3.26 The Audit Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on-going training for existing members.
- 3.27 The Audit Committee shall give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authorities Listing Rules as appropriate.

4 Authority

The Audit Committee is authorised by the Board:

- 4.1 to seek any information it requires from any employee, consultant and other provider of services to the Company (for example, solicitors, tax advisers, management consultants) in order to perform its duties;
- 4.2 to obtain, at the Company's expense, independent legal or other professional advice on any matter within its terms of reference.