

AUDIT COMMITTEE TERMS OF REFERENCE

General statement

The purpose of the Audit Committee is to provide a facility for:

- monitoring the integrity of the Company's financial statements;
- discussing with the Group's external auditors their report on the annual accounts setting out the scope and results of their work in relation to those accounts and material judgements contained in them;
- reviewing management's responsiveness to the external auditors' findings;
- reviewing the effectiveness of the external audit process; and
- reviewing with the Head of Corporate Audit the effectiveness of the internal audit function.

It also reviews any other matters which might have a financial impact upon shareholders including the Group's systems of internal control and risk management, and changes in accounting policies.

The Committee makes recommendations to the Board in relation to the appointment of the external auditors and approves the terms of engagement and fees of the external auditors. The Committee is also responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained.

The Committee has the authority to investigate any matters within its terms of reference, to access resources if it needs to do so and to call for information.

The Committee shall review annually its terms of reference and its effectiveness and shall recommend to the Board any changes required as a result of such review.

Should there be any disagreement between the Committee and the Board which cannot be resolved, the Committee has the right to report the issue to shareholders within the Company's next following annual report.

The Committee Chairman shall report formally to the Board on its proceedings after each Committee meeting on all matters within its responsibility and the minutes of meetings shall be circulated to all members of the Board.

A Committee member may contact the external auditors directly in circumstances where he or she considers it necessary having first raised the matter in Committee or with the Chairman of the Committee.

Composition and attendance at meetings

The Audit Committee shall comprise at least three Non-Executive Directors (all of whom shall be deemed by the Board to be independent of management and, when practicable, at least one of whom shall be deemed by the Board to have recent and relevant financial experience). Members of the Committee shall be appointed by the Board upon the recommendation of the Nominations Committee in consultation with the Chairman of the Audit Committee. The Chairman of the Board shall not be a member of the Committee. The Chairman of the Committee shall be appointed by the Board upon the recommendation of the Nominations Committee. The Committee shall operate with a quorum of three. The Company Secretary shall be in attendance at meetings.

No person other than the members of the Committee is entitled to be present at meetings but non-members may be invited by the Committee to attend. The Head of Corporate Audit (who is accountable to the Committee), and the external auditors shall have direct access to the Chairman of the Committee and will attend meetings as necessary at the invitation of the Committee. Other Board members may request attendance at meetings upon giving the Company Secretary or the Chairman of the Committee at least 24 hours' notice.

AUDIT COMMITTEE (cont'd)

Frequency of meetings

The Committee shall meet at least four times a year with meetings before the annual and half year results announcements and at the commencement and conclusion of the annual external audit process. At least once a year there shall be separate discussions with the external auditors and with the Head of Corporate Audit without any Executive Director or other management being present.

Access to external advice

The Committee may obtain outside professional advice at the cost of the Company if the Chairman of the Committee, after discussion with the Chairman, is satisfied that this is necessary. The Committee may invite external advisers to attend a meeting if necessary to assist the Committee in its work.

Responsibilities

Financial statements

- (a) Monitoring the integrity of the Group's financial statements and any announcements relating to its financial performance, including reviewing matters of principle in relation to such statements and announcements, with particular reference to changes in accounting policies and reporting practices and to significant reporting judgements used, and reviewing the clarity and completeness of the disclosures in such statements and announcements.
- (b) Reviewing financial reporting and controls operating within the Group.
- (c) Reviewing related information presented with the Group's financial statements, including operating and financial reviews and corporate governance statements relating to the audit, going concern, internal controls and risk management.
- (d) Where practicable (and without being inconsistent with any requirement for prompt reporting under the FSA's Listing Rules), reviewing any other statements containing financial information (including release of price sensitive information) prior to Board approval where required.

Risk management

- (e) Reviewing annually the processes in place for monitoring and evaluating risk and reporting to the Board on such processes.
- (f) Reviewing annually reports made to it on the Group's system of internal control and on its effectiveness, and reporting to the Board on the results of the review. The reports to the Committee will cover all material controls including financial, operational and compliance controls and risk management.

AUDIT COMMITTEE (cont'd)

Responsibilities (cont'd)

External audit

- (g) Ensuring that the external auditors have appropriate audit plans in place and reviewing with them the results of the audit. Reviewing the management representations set out in the external auditor's report. Reviewing and monitoring management's responsiveness to the external auditors' report.
- (h) Assessing annually the qualification, expertise and resources of the external auditor and the effectiveness of the external audit process.
- (i) Reviewing annually the independence and objectivity of the external auditors and in this context:
 - (i) developing, implementing and reviewing the Company's policy on the provision of non-audit services by the external auditors, taking into account relevant ethical guidance, making recommendations to the Board in connection with such policy and considering non-audit fees payable to the external auditors; and
 - (ii) developing for recommendation to the Board the Company's policy on the employment of former employees of the external auditors, taking into account relevant ethical guidelines, and monitoring the application of such policy.
- (j) Overseeing the process for the selection of new appointees as external auditors, making recommendations to the Board as appropriate on the appointment or reappointment of the external auditors and considering any question of their resignation or dismissal (including investigating the issues surrounding such resignation or dismissal and considering whether any action is required).
- (k) Reviewing and approving the terms of engagement of the external auditors at the start of each audit and the audit fee (having satisfied itself that the fee is appropriate and that an effective audit can be conducted for such a fee).

Internal audit

- (l) Approving the appointment and termination of the Head of Corporate Audit upon the recommendation of the Chief Executive.
- (m) Monitoring and reviewing the terms of reference (covering scope, authority and resources) and effectiveness (including competence, work programme and output) of the Corporate Audit Department, in the context of the Company's internal control and risk management systems.
- (n) Reviewing quarterly reports on the activities of Corporate Audit.

Other

- (o) Monitoring compliance with the Company's policy for the appointment of agents and consultants.
- (p) Reviewing as necessary the Company's Employee Disclosure Procedures Policy.
- (q) Reviewing the Directors' and the Company Secretary's expenses.