



TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Constitution

1. A committee has been established by resolution of the board of directors of the Company (the **Board**) and is to be known as the Audit Committee (the **Committee**).

Membership

2. The Committee shall be appointed by the Board from amongst the independent non-executive directors of the Company (other than the Chairman of the Board) and shall consist of not less than three members at least one of whom shall have recent and relevant financial experience.

3. The Chairman of the Committee shall be appointed by the Board from the members of the Committee. In the absence of the Chairman of the Committee and/or an appointed deputy at any meeting, the remaining members present shall elect one of themselves to chair the meeting.

4. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, unless the Board otherwise determines and subject to the members' retirement by rotation, in accordance with the terms of the Company's Articles of Association and the provisions of the Combined Code on Corporate Governance.

5. The members of the Committee shall be identified in the Company's annual report.

Secretary

6. The Company Secretary or a nominee thereof shall act as the secretary of the Committee.

Quorum

7. A quorum 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.

Attendance at meetings

8. Only members of the Committee have the right to attend Committee meetings. However, the external auditor and Chief Financial Officer should normally attend meetings. Other individuals, such as the Chief Executive, the Chairman of the Board, the head of human resources and/or external advisers, may attend all or part of any meeting as and when appropriate at the invitation of the Chairman of the Committee.

9. Where an internal audit function is discussed at a meeting, the head of internal audit should normally attend that meeting.
10. Meetings may be held by telephone.

Frequency of meetings

11. Meetings shall be held at least three times a year or more frequently as circumstances require and where appropriate should coincide with key dates in the Company's financial reporting cycle.
12. The external auditors and/or the head of internal audit and/or officers responsible for risk assurance may request a meeting of the Committee if they consider that one is necessary.
13. At least once a year, without the presence of executive management and without the presence of the internal auditors, the Committee shall meet with the external auditors.
14. Meetings shall be held in England.

Notice of meetings

15. Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
16. 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, prior to the date of the meeting in a timely manner. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

Authority

17. The Committee is authorised by the Board to:
 - (a) investigate any activity within its terms of reference;
 - (b) seek any information that it requires from any employee and all employees shall be required to co-operate with any request made by the Committee;
 - (c) obtain, at the Company's expense, outside legal or other independent professional advice on any matters within its terms of reference; and
 - (d) secure the attendance of outsiders with relevant experience and expertise if it considers that necessary.

Duties

18. Having regard to the rules of the UK Financial Services Authority and the requirements of the Combined Code on Corporate Governance, the Committee shall do the following:

Financial reporting

- (a) Monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. Review, and

challenge where necessary, the actions and judgements of management in relation to the quarterly, half-year and annual financial statements before submission to the Board, focussing particularly on:

- (i) significant accounting policies and practices and any changes in them;
- (ii) consistency of accounting policies across the Company/group;
- (iii) major judgemental issues;
- (iv) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
- (v) the clarity of disclosures;
- (vi) significant adjustments resulting from the audit;
- (vii) the going concern assumption;
- (viii) compliance with appropriate accounting standards and making appropriate estimates and judgements, taking into account the views of the external auditor;
- (ix) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- (x) compliance with the rules of the London Stock Exchange, the Listing Rules of the UK Financial Services Authority and other regulatory and legal requirements;
- (xi) the Company's statement on internal control systems prior to endorsement by the Board and a review of the policies and processes for identifying and assessing business risks and the management of those risks by the Company; and
- (xii) all material information presented with the financial statements, such as the operating and financial review and compliance of the corporate governance statement with the Combined Code on Corporate Governance (insofar as it relates to audit and risk management).

External audit

- (b) Consider and make recommendations to the Board as regards the appointment and re-appointment of the external auditors as well as any question of resignation or dismissal, and assess annually their qualification, independence, objectivity and effectiveness.
- (c) Oversee the selection process for new auditors and 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) approval of their remuneration, ensuring that the level of fees is appropriate to enable an adequate 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) satisfying itself that there are no relationships (such as family, employment, investment, financial or business between the auditor and the Company (other than in the ordinary course of business));
 - (v) agreeing with the Board a policy on the employment of former employees of the Company's external auditor and monitoring the implementation of that policy;
 - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (vii) assessing annually their qualification, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their internal quality procedures.
- (e) Meet and discuss with the external auditors before the audit commences the nature and scope of the audit.
- (f) Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- (g) Discuss with the external auditors issues such as compliance with accounting standards and proposals by the external auditors regarding the Company's risk assurance processes.
- (h) Meet with the external auditors post-audit at the reporting stage to discuss the audit, including, but not limited to:
 - (i) problems and reservations arising from the audit;
 - (ii) major issues which arose during the audit;
 - (iii) any accounting and audit judgements;
 - (iv) levels of errors identified during the audit; and
 - (v) any matters the auditor may wish to discuss (in the absence of executive management where necessary).
- (i) Review the management representation letter, the external auditors' management letter and the management's response.
- (j) Review the effectiveness of the external audit.
- (k) Develop and implement a policy on the supply of non-audit services by the external auditor.

Internal audit

- (l) Approve the terms of reference of the internal audit function; monitor and review the internal audit programme and its effectiveness; ensure co-ordination between the officers responsible for internal audit and the external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company.
- (m) Approve the appointment or dismissal of the officers responsible for the internal audit and/or other officers responsible for risk assurance.
- (n) Meet the officer in charge of the internal audit function, and/or other officers responsible for risk assurance, at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the officer in charge of the internal audit, and/or other officers responsible for risk assurance, shall be given the right of direct access to the Chairman of the Board and to the Committee.
- (o) Consider any major audit recommendations, the major findings of internal investigations and management's response.
- (p) Review the risk assurance reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- (q) Review the annual internal audit plan, all reports on the Company from the internal auditors and management's responsiveness to the findings and recommendations of the internal auditor.

Non-audit services

- (r) Develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the external auditors specifying the types of non-audit work from which the external auditors are excluded, for which they can be engaged without referral to the Committee and for which a case-by-case decision is necessary; oversee implementation of the policy; consider any fees in respect of non-audit services provided by the external auditors, and ensure that the provision of the non-audit services does not impair the external auditors' independence or objectivity.

Whistle blowing

- (s) Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Reporting procedures

19. The secretary of the Committee shall minute the proceedings and resolutions of all meetings as well as keep appropriate records and, once agreed, shall circulate the minutes of meetings of the Committee to all members of the Board.

20. The Chairman of the Committee shall bring to the attention of the Board and/or make appropriate recommendations to the Board concerning those matters which have been considered or reviewed by it at the meeting of the Board next following a meeting of the Committee.

21. The Committee's duties and activities during the year shall be disclosed in the Company's annual report and the terms of reference of the Committee, explaining its role and the authority delegated to it by the Board, shall be made available on request and placed on the Company's website.

22. The Chairman of the Committee shall attend the AGM and shall be prepared to answer questions on the Committee's activities and its responsibilities.

Other

23. The Committee members shall conduct an annual review of its own performance, constitution and these terms of reference and recommend to the Board any changes it considers necessary.

24. The Board shall ensure that the Committee:

- (a) shall have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required; and
- (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.