

AUDIT COMMITTEE – TERMS OF REFERENCE

1. The Board has resolved to establish a Committee of the Board to be known as the Audit Committee (the “Committee”) and reserves the authority to appoint or remove the Committee Chairman or any of its members.
2. Its membership consists of at least three independent non-executive directors, one of whom the Board considers has recent and relevant financial experience. Members of the Committee shall be appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chairman of the Committee. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, other directors, Group Financial Controller, the Heads of Internal Audit, Tax, Treasury and Risk functions or other employees may be invited to attend all or part of any meeting as and when appropriate and necessary. The external auditor will be invited to attend meetings of the Committee on a regular basis.
3. A quorum for meetings of the Committee 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.
4. The Company Secretary or the Committee’s nominee shall act as secretary to the Committee.
5. The Committee shall meet on at least four occasions in the year. Two meetings shall coincide with consideration of the half-year and full-year results announcements. Meetings may be called by any member of the Committee or the Committee Secretary. On at least two occasions per annum the Committee shall meet with the Company’s external auditor without executive directors present. The Committee shall also meet with the Company’s Head of Internal Audit on at least two occasions per annum without executive directors present.
6. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided the director still meets the criteria for membership of the Committee. The Committee Chairman and Committee members will receive an additional fee to their Non-Executive Director remuneration, to recompense them for the additional responsibilities of committee membership. The additional fee will be agreed by the Board.
7. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate fully with any request made by the Committee.
8. Notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee, any other person required to attend, no later than five working days before the date of the meeting. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board promptly.
9. The Chairman of the Committee shall attend the company’s annual general meeting and will be available to respond to questions about the work of the Committee.

10. The Committee is authorised by the Board to obtain outside independent professional advice, at the Company's expense, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
11. The duties of the Committee shall be:
 - (a) to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them. In particular to review the half-year and annual financial statements and associated reports before submission to the Board.

In particular the Committee shall review and challenge where necessary:

- the consistency of, and any changes to, accounting policies and practices
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - the clarity of disclosure in the Company's financial reports and the context in which statements are made;
 - the going concern assumption
 - all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
 - compliance with appropriate UK and overseas listing and legal requirements;
 - the avoidance of inaccurate or misleading information.
- (b) to review the Company's procedures for detecting fraud.
 - (c) to review and monitor the Company's internal control, financial reporting, accounting policies and procedures, and risk management systems. The Committee should also review the Company's statements on Internal Control before they are agreed by the Board for inclusion in the Company's Annual Report and Accounts;
 - (d) to keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, and review and approve the statements to be included in the annual report concerning internal controls and risk management;
 - (e) to consider and make recommendations to the Board, for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
 - (f) to 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;

- (g) to approve the terms of engagement and to recommend the external auditor's remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- (h) to discuss and agree with the external auditor before the audit commences the nature and scope of the audit and to approve the audit plan;
- (i) to discuss problems and reservations arising from the work of the external auditor and to review the auditor's management letter and management's response;
- (j) to review the representation letter(s) requested by the external auditor before they are signed by management;
- (k) to annually review the overall financial relationship between the Company and its external auditor and in particular to monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- (l) to review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements;
 - levels of errors identified during the audit; and
 - the effectiveness of the audit.
- (m) to ensure that there are no unsettled issues of significance between management and the external auditor which could affect the underlying accuracy of the Company's financial reporting;
- (n) to develop, implement policy and annually review the engagement of the external auditor to supply non-audit services, taking into account relevant corporate governance best practice guidance regarding the provision of non-audit services by the external audit firm;
- (o) to annually assess the external auditor's 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;
- (p) to assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- (q) to monitor 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;
- (r) at the end of the annual audit cycle, to assess the effectiveness of the audit process, assess the effect of the audit process, including:
 - review whether the auditor has met the agreed audit plan;

- consider the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements;
 - obtain feedback about the conduct of the audit from key people involved; and
 - review and monitor the content of the external auditor's management letter.
- (s) to review the Company's arrangements by which employees may in confidence raise concerns about possible business, financial or other improprieties. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (t) to review Internal Audit and its relationship with the external auditor;
- (u) to monitor and review the effectiveness of the Company's internal audit function;
- (v) to approve the appointment or termination of the Head of Internal Audit;
- (w) to review and assess the annual internal audit plan;
- (x) to review annually its terms of reference and its own effectiveness and recommend any necessary changes to the Board; and
- (y) to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
12. The Company shall maintain an internal auditing function for the Group. The Committee shall monitor and review the effectiveness of the Company's internal audit function at least annually. The duties of the Head of Internal Audit shall include:
- (a) reviewing any aspect of the business of the Group according to a programme approved by the Audit Committee or as directed by the Chairman of the Committee, the Chief Executive Officer or Chief Financial Officer ("an approved audit");
- (b) to report to the Committee on matters which are the subject of an approved audit, or are of a material nature; and
- (c) reporting back to the Committee the progress made in implementing any internal audit recommendations.
- (d) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions.

13. In order for the Head of Internal Audit to perform his function effectively:
 - (a) the Chief Financial Officer shall ensure that the Head of Internal Audit has unfettered access to the Company's records and staff as required in order to carry out any approved audit;
 - (b) the Head of Internal Audit will have unfettered access to the Chairman of the Board and to the Committee; and
 - (c) The Head of Internal Audit will routinely update the Executive Committee on Internal Audit matters.
14. The Committee shall 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 as required.
15. The Committee shall consider, and if necessary, prepare a report for shareholders for inclusion in the Company's Annual Report and Accounts.
16. If there is disagreement between the Committee and the Board, adequate time to be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreements cannot be resolved, the Committee have the right to report the issue to the shareholders as part of the report on its activities in the annual report.