

## **APPENDIX 2**

### **AUDIT COMMITTEE TERMS OF REFERENCE**

#### **1. CONSTITUTION**

The Board has resolved to establish a Committee of the Board to be known as the Audit Committee.

#### **2. ATTENDANCE AND PROCEEDINGS AT MEETINGS**

- 2.1. No one other than the Committee Chairman and members is entitled to attend or vote at a meeting of the Committee.
- 2.2. In the course of performing its functions, the Committee may choose to invite to attend Audit Committee meetings such persons, or issue standing invitations to such persons, as it deems appropriate.
- 2.3. Meetings and proceedings of the Committee will be governed by the Company's Articles of Association regarding the meetings and proceedings of Directors.
- 2.4. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Committee and any other person required, or invited, to attend not later than 48 hours prior to the date of the meeting, or if later as soon as is practicable. Failure to provide documents relating to any issue for discussion at the meeting will not preclude discussion about the same nor any decision relating thereto, at a meeting of the Committee.
- 2.5. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 2.6. In the event that a matter is required to be resolved by a vote of the Committee, any such matter shall be decided by a majority of votes. The Chairman shall not have a casting vote.

#### **3. COMPANY SECRETARY**

- 3.1. The Company Secretary shall act as the Secretary of the Committee and shall keep a record of:
  - 3.1.1. the membership of and the dates of any changes to the membership of the Committee; and
  - 3.1.2. any person or firm who provides advice or services to the Committee or materially assists the Committee on matters relating to the Committees activities. The Company Secretary shall keep a record of the nature of any other services provided by that person to the Company during the year.
- 3.2. The Secretary of the Committee shall circulate the minutes of such meetings to the Chairman of the Committee and once agreed to all members of the Board.

#### 4. **FREQUENCY OF MEETINGS**

- 4.1. Meetings shall be held not less than five times a year and at such times as the Chairman of the Committee or the Chairman of the Board shall require. The external auditors may request a meeting if they consider that one is necessary.
- 4.2. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee or the Chairman of the Board or the external auditors.
- 4.3. There shall be at least one meeting, or part of a meeting, each financial year which the external auditors attend without management present.

#### 5. **QUORUM**

The quorum necessary for the transaction of business 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.

#### 6. **AUTHORITY**

- 6.1. The Committee is authorised by the Board at the expense of the Company to investigate any activity within its duties as set out in these terms of reference. It is authorised to seek any information it requires from any Director or employee in order to perform its duties and all directors and employees are required to co-operate with any requests made by the Committee.
- 6.2. The Committee is authorised by the Board to obtain external professional advice at the expense of the Company and to secure the attendance of third parties with relevant experience and expertise at meetings of the Committee if it considers this necessary. The Committee will notify the Head of Legal and Business Affairs of the Company, prior to obtaining expert legal advice and the Chief Financial Officer prior to obtaining expert financial advice. To the extent that, it is inappropriate to notify such persons, such advice may be sought by a Director following consultation with the Chairman of the Board.

#### 7. **ANNUAL GENERAL MEETING**

The Chairman of the Committee shall be requested to attend the Annual General Meeting to answer questions on the Committee's responsibilities and activities throughout the year.

#### 8. **DUTIES**

The duties of the Committee are as follows:

##### **Financial Reporting**

- 8.1. To review the quarterly, half year and annual financial statements of the Company before submission to the Board, focusing particularly on:
  - 8.1.1. Any changes in accounting policies and practices;
  - 8.1.2. Major judgmental areas, including critical accounting estimates;
  - 8.1.3. Significant adjustments resulting from the audit;

- 8.1.4. The going concern assumption;
- 8.1.5. Compliance with applicable accounting standards;
- 8.1.6. The clarity of disclosures;
- 8.1.7. Compliance with stock exchange and legal requirements;
- 8.2. To discuss any problems and reservations arising from the annual audit, half yearly and quarterly reviews, and any matters the external auditor may wish to discuss (in the absence of management where appropriate);
- 8.3. To recommend to the Board the approval of, or any amendment to, the Company's quarterly, half year and annual financial statements;
- 8.4. Prior to its filing at the SEC, to review in its entirety and discuss the Company's Annual Report on Form 20-F, with management and the external auditors (including without limitation all relevant financial statements, management reports and operating financial reviews contained therein);
- 8.5. To review the Company's significant accounting principles and any changes thereto, and to consider the impact of acceptable alternative accounting principles that are communicated by the external auditor, internal auditors or the Company's management; and
- 8.6. To maintain and review on an annual basis a sound system of internal control to safeguard shareholders' investment and the Company's assets.

#### **Reporting Procedures**

- 8.7. The Committee shall report on its procedures as follows:
  - 8.7.1. The Chairman of the Committee or, as a minimum, another member of the Committee, shall attend the Board meeting at which the Company's financial statements are approved.
  - 8.7.2. Where, following the Committee's review of the proposed financial statements of the Company and any amendments thereto, the Committee is satisfied that the financial statements present a true and accurate view of the Company's financial position, it shall recommend to the Board the approval of such financial statements and amendments thereto (as the case may be).
  - 8.7.3. Where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.
  - 8.7.4. The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board.
  - 8.7.5. The Committee's duties and activities during the year shall be disclosed in the annual financial statements.

#### **External Audit**

- 8.8. To make recommendations to the Board (for submission to the shareholders) in relation to the appointment, reappointment and removal of the external auditor and to be directly responsible for the compensation, retention and oversight of the work of any professional accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, in line with the Company's policy on the use of external auditors, it being

understood that each such professional accounting firm must report directly to the Committee;

- 8.9. To discuss with the external auditor before the full year audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- 8.10. To agree and approve the auditor's engagement letter together with the annual fees;
- 8.11. To review the external auditor's management letter and management's response;
- 8.12. To review with the external auditor any audit problems or other difficulties encountered during the course of the audit process, including any restrictions on the scope of the external auditor's activities or access to required information and any significant disagreements with management and management's response to such matters; the Committee shall be responsible for the resolution of any disagreements between management and the external auditor regarding financial reporting;
- 8.13. To review, at least annually, the qualifications, performance and independence of the external auditors. In conducting its review and evaluation, the Committee should:
  - 8.13.1. Obtain and review a report by the Company's external auditor describing:
    - 8.13.1.1. The auditing firm's internal quality-control procedures;
    - 8.13.1.2. Any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues;
    - 8.13.1.3. All relationships between the independent auditors and the Company;
  - 8.13.2. To review and evaluate the performance of the lead audit partner;
  - 8.13.3. To assure the rotation of the lead audit partner and the audit partner responsible for reviewing the audit as required by law or applicable Stock Exchange Rules;
  - 8.13.4. To discuss with the external auditors any disclosed relationships or services that may impact the objectivity or independence of the external auditors;
  - 8.13.5. To consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself;
  - 8.13.6. To take into account the opinions of management and the Company's internal auditors;
  - 8.13.7. To present its conclusions with respect to the external auditors to the Board and, if necessary, recommend that the Board take

appropriate action to satisfy itself of the qualifications, performance and independence of the external auditors;

8.13.8. To develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external auditors and to report to the Board, identifying any matter in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken;

8.14. To approve, in advance, all audit services, in accordance with the Company's policy on the use of external auditors and all non-audit services provided by the Company's external auditors that are not specifically prohibited under the SEC Rules or applicable Stock Exchange Rules.

#### **Internal Audit**

8.15. To discuss with management the Company's major financial risk exposures and the steps management has taken or plans to take to monitor and control such risks, including the Company's risk assessment and risk management proposals;

8.16. To approve the appointment and replacement of the Director of the internal Audit and Risk Management Department and to review the adequacy and qualifications of the internal Audit and Risk Management Department and the responsibilities and the resources available to the department;

8.17. To review any significant reports to the Company's management prepared by the internal Audit and Risk Management Department and the responses of the Company's management;

8.18. To review and evaluate, management's report on the Company's internal controls over financial reporting, and the external auditors attestation report on such management report that could significantly affect the Company's financial statements;

8.19. To monitor and review the effectiveness of the Company's internal Audit and Risk Management function.

#### **Whistleblowing**

8.20. To establish and review the Company's procedures for handling the receipt, retention and treatment of concerns raised on a confidential or anonymous basis from whistleblowers including those regarding accounting matters, internal controls or auditing matters, and to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up;

#### **Code of Ethics**

8.21. To review and approve the Company's Code of Ethics, including any amendments thereto, and monitor compliance therewith;

#### **Related Party Transactions**

8.22. To approve (subject, where applicable, to Board approval) all transactions which fall within the Stock Exchange definition of Related Party Transactions and to recommend such transactions as it approves to the Board (where it is also a matter requiring Board approval under paragraph 4.2 of the Schedule of Matters reserved for the Board);

8.23. In addition to 8.22, to approve the entering into by the Group of a commitment or arrangement (or any series of related commitments or

arrangements) with a related party of the Company which, whether budgeted or unbudgeted, involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £10 million but not exceeding £25 million in aggregate value (whether in cash or otherwise and where applicable over any term thereof.. Any transaction as described above which is over £25 million in aggregate value shall be submitted to the Audit Committee and if approved by the Audit Committee, it shall also be submitted to the Board for approval.

- 8.24. To review, a schedule prepared for the Audit Committee by management showing cumulatively all transactions with related parties which have been entered into and which exceed £100,000 in value and payments made pursuant to such arrangements;

**Treasury**

- 8.25. To approve of treasury policies (including foreign currency exposure and the use of financial derivatives);

**Other**

- 8.26. To consider other matters as requested by the Board from time to time.

**9. GENERAL**

Nothing in these Terms of Reference, nor anything in any of the attached Annexes is intended to, amend, detract from or conflict with the Articles of Association of the Company, and in such event the Articles of Association shall prevail.

Attached as annexes 1 to 4 are the following policies agreed by the Audit committee:

1. Code of Ethics
2. Whistleblowing Policy
3. Policy on use of External Auditor for Non-Audit work
4. Definition of a related party transaction