

FENNER PLC

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

JUNE 2009

1. MEMBERSHIP & ATTENDANCE

- 1.1. The Committee shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee and shall comprise the independent non-executive Directors excluding the Chairman of the Board. At least one member of the Committee should have recent relevant financial knowledge.
- 1.2. The Board shall appoint the Committee Chairman who shall be an independent non-executive Director. If the Chairman of the Committee shall not be present at any meeting of that Committee, the members of the Committee present shall appoint one of their number to chair the meeting.
- 1.3. Only members of the Committee have the right to attend meetings, however, other individuals may be invited to attend all or part of any meeting as and when appropriate.

2. SECRETARY

- 2.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

3. QUORUM

- 3.1. The quorum for the transaction of business shall be two (2). 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. FREQUENCY OF MEETINGS

- 4.1. Meetings of the Committee will be held at least three times in each financial year of the Group and, subject thereto, at such times and at such places as shall be decided by the Committee.

5. NOTICE OF MEETINGS

- 5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member of the Board or at the request of the external or internal auditors if they consider it necessary.
- 5.2. 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 forwarded to each member of the Committee, any other person required to attend and all other members of the Board to arrive no later than 5 working days before the date of the meeting.

6. MINUTES OF MEETINGS

- 6.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee.
- 6.2. The Secretary should ascertain, at the beginning of the meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3. Minutes of the Committee shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7. ANNUAL GENERAL MEETING

- 7.1. The Chairman of the Committee shall attend the AGM and be prepared to respond to any shareholder questions on the Committee's activities.

8. DUTIES

8.1. *Internal Control & Risk Assessment*

- 8.1.1. The Committee shall keep under review the effectiveness of the Group's financial reporting and internal control policies and procedures for the identification, assessment reporting and management of risks.
- 8.1.2. The Committee shall review the Group's statement on internal control systems prior to endorsement by the Board, unless done by Board as a whole.

8.2. *Internal Audit*

- 8.2.1. Internal audit is a function of Group Finance, reporting to the Group Finance Director. The principal term of reference of Internal Audit is to provide assurance on the integrity of the internal financial reporting programmes of the Group. This is achieved by completing a programme of work during site location visits undertaken at least once a year for each reporting unit. Access to unit operations by Internal Audit is unrestricted.
- 8.2.2. The Committee shall review, half-yearly, the planned programme of audits and the reason for any change or delay in the programme.
- 8.2.3. The Committee shall review the effectiveness of the internal audit function in the context of the Group's overall risk management system.
- 8.2.4. The Committee shall review promptly all reports from the internal auditors and managements' responses every 6 months. They will also review promptly all reports that give rise to significant concerns.
- 8.2.5. The internal auditors shall be given the right of direct access to the Committee.

8.3. *External Audit*

- 8.3.1. The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, as regards the appointment, re-appointment and removal of the Group's external auditors, and shall ensure that key partners within the appointed firms are rotated from time to time in accordance with relevant ethical and professional guidance.
- 8.3.2. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- 8.3.3. The Committee shall meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage). The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit including (but not limited to) accounting and audit judgements and any levels of errors identified during the audit. The Committee shall ensure that any auditor's management letters and management's responses are reviewed.
- 8.3.4. The Committee shall review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 8.3.5. The Committee shall keep under review the relationship with external auditors including (but not limited to):
- 8.3.5.1. the independence and objectivity of the external auditors, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - 8.3.5.2. the consideration of audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities in accordance with the Committee's Policy on Services to be provided by external auditors dated April 2004 (or any replacement policy on the supply of non-audit services by the external auditor (taking into account any relevant ethical guidance on the matter) developed and implemented);
 - 8.3.5.3. discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the company's internal auditing standards;

- 8.3.5.4. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.3.5.5 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Group (other than through the ordinary course of business);
- 8.3.5.6 agreeing with the Board and monitoring a policy on the employment of former employees of the Group's auditors;
- 8.3.5.7 assessing annually their qualifications, expertise, resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures; and
- 8.3.5.8 seeking to ensure co-ordination with the activities of the internal audit function.
- 8.3.5.9 considering the risk of withdrawal of the company's present auditor from the market.

8.4. *Financial Reporting*

- 8.4.1. The Committee shall monitor the integrity of the financial statements of the Group (including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance) reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 8.4.2. The Committee shall keep under review the consistency of accounting policies both on a year on year basis and across the Group.
- 8.4.3. The Committee shall review and challenge where necessary the Group's financial statements taking into account:
 - 8.4.3.1. the methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.4.3.2. the clarity of disclosure in the Group's financial reports and the context in which statements are made;

- 8.4.3.3. 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);
 - 8.4.3.4. the going concern assumption;
 - 8.4.3.5. whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor; and
 - 8.4.3.6. compliance with stock exchange and other legal requirements.
 - 8.4.4. The Committee shall review the annual financial statements of the pension fund(s) where not reviewed by the Board as a whole.
- 8.5. *Reporting Responsibilities*
 - 8.5.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. In addition, the Committee or its Chairman shall meet formally with the Board at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.
 - 8.5.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
 - 8.5.3. The Committee shall compile a report to shareholders to be included in the Group's Annual Report & Accounts.
- 8.6. *Whistleblowing and Fraud*
 - 8.6.1. The Committee shall review the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
 - 8.6.2. The Committee shall review the Group's procedures for detecting fraud.
- 8.7. *Other Matters*
 - 8.7.1. The Committee shall give due consideration to relevant laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate.

- 8.7.2. The Committee shall ensure that management co-ordinate the internal and external auditors.
- 8.7.3. The Committee shall oversee any investigation of activities which are within its Terms of Reference and act for internal purposes as a court of the last resort.
- 8.7.4. The Committee should on a regular basis, and in any event at least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 8.7.5. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 8.7.6. 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.

9. **AUTHORITY**

The Committee is authorised:

- 9.1 to seek any information it requires from any employee of the Group and the Executive Directors of the Company in order to perform its duties;
- 9.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference; and
- 9.3 to call any employee to be questioned at a meeting of the Committee as and when required.