

LMS CAPITAL PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

(Approved at a meeting of the board of directors held on 11 April 2006)

Constitution

1. It is resolved that a committee of the board be established, to be known as the audit committee.

Membership and Secretary

2. **Composition** The audit committee members shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee. The appointments shall be made in accordance with the Company's articles of association. The committee shall comprise at least two members, each of whom shall be an independent non-executive director of the Company. The first members shall be John Barnsley and Richard Christou.
3. **Committee refreshment** Each member shall hold office as a committee member for a period of up to three years, which may be extended by no more than two additional three-year periods.
4. **Financial experience** At least one committee member shall have recent and relevant financial experience. The remaining members should at a minimum have experience of dealing with financial and accounting matters.
5. **Chairman** The chairman of the audit committee shall be appointed by the board on the recommendation of the nomination committee and shall be John Barnsley at the date of approval of these terms of reference. In the absence of the chairman of the audit committee, the members present at any meeting of the committee shall elect one of their number to chair the meeting.
6. **Secretary** The company secretary or his or her nominee shall be the secretary of the audit committee.

7. **Disclosure of interests** Each member of the audit committee shall disclose to the audit committee:

- (a) any personal financial interest (other than as a shareholder of the Company) in any matter to be decided by the audit committee; and
- (b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the audit committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the board) shall resign from the audit committee.

Meetings

8. **Attendance** No one other than the audit committee chairman and members of the audit committee is entitled to be present at a meeting of the audit committee. The audit committee chairman and members shall, however, have the discretion to decide who else shall be invited to attend.

9. **External auditors and others** It is expected that the external audit lead partner will be invited regularly to attend meetings, as well as the chief financial officer. At least once a year, the audit committee shall meet with the external and, if any, internal auditors, without management present, to discuss matters relating to its remit and any issues arising from the audit.

10. **Frequency** The audit committee chairman, in consultation with the secretary, shall decide the frequency and timing of the audit committee's meetings. In any event, meetings shall be held not less than twice a year. A meeting shall be held as soon as reasonably practicable upon a request for such meeting by the Company's internal or external auditors.

11. **Quorum** The quorum for meetings of the audit committee shall be two members present throughout the meeting. A member may participate in an audit committee meeting by telephone and be counted in the quorum.

12. **Notice** The secretary should ensure that notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed

and supporting papers, where appropriate, shall be forwarded to each member of the audit committee and to each other person invited to attend (if appropriate) in a timely manner to enable full and proper consideration to be given to the issues.

13. **Duration** Sufficient time should be allowed to enable the audit committee to undertake as full a discussion as may be required.
14. **Minutes** The secretary shall prepare minutes of any meeting of the audit committee, recording the proceedings, resolutions and the names of those present and in attendance. Minutes of committee meetings shall be circulated promptly to members and, after approval by the chairman of the audit committee, to all other directors, unless there is a conflict of interest.

Authorities

15. **Resources** The audit committee should be provided with sufficient resources to undertake its duties.
16. **Advice** The audit committee is authorised by the board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, if it reasonably considers this necessary, at the Company's expense. The audit committee shall have access to the external auditors as required.
17. **Support** The audit committee shall have access to the services of the secretary on all audit committee matters, including (but not limited to) assisting the chairman in planning the audit committee's work, drawing up meeting agendas, preparation and maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
18. **Investigation** The audit committee is authorised by the board to investigate any activity within the scope of its duties and to intervene if the committee considers it appropriate and if the board instructs it to do so.
19. **Information** The audit committee is authorised to seek any information it requires from any employee of the group and shall have access to the Head

of Internal Audit (if there is one). All employees are directed to co-operate with any request made by the audit committee.

20. **Reports** The audit committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfill its obligations.

Duties

21. The duties of the audit committee shall be:

(a) General

- (i) **Shareholder interests** to ensure the interests of the shareholders are properly protected in relation to financial reporting and internal control;
- (ii) **Financial controls** to satisfy itself that there is a proper system and allocation of responsibilities for the day-to-day monitoring of financial controls; and
- (iii) **Subsidiaries** to review issues that relate to particular subsidiaries or activities carried on by the group.

(b) External Auditors

- (i) **Appointment and removal** to oversee the process for selecting the external auditors and make appropriate recommendations to the board, to be put to shareholders for their approval in general meeting regarding the appointment, re-appointment or removal of the external auditors;
- (ii) **Remuneration** to approve the remuneration payable to the external auditor in respect of both audit fees and any fees which are payable to them in relation to non-audit services;
- (iii) **Terms of Engagement** to approve the terms of engagement of the external auditor;

- (iv) **Committee recommendation** if the board does not accept the audit committee's recommendation on the appointment, re-appointment or removal of external auditors, to prepare a statement explaining the committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the board's reasons for taking a different position;
- (v) **Auditor meetings** to meet with the external audit lead partner and other audit partners and staff as required and in accordance with paragraph 10 above;
- (vi) **Expertise** to assess annually the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process. The assessment should cover all aspects of the audit service provided by the audit firm and include obtaining a report on the audit firm's own internal quality control procedures;
- (vii) **Resignation** if the external auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required;
- (viii) **Engagement letter** to review and agree the engagement letter with the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;
- (ix) **Audit scope** to discuss with the external auditors before the audit commences, and keep under review, the scope and results of the audit; to arrange for additional work to be undertaken if the scope is not adequate; review whether the level of fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- (x) **Independence** to monitor the application of the Company's policy in relation to the external auditor's independence,

objectivity and the effectiveness of the audit process. This should be done annually on the basis of the policy, taking into consideration relevant professional and regulatory requirements;

- (xi) **Non-audit services policy** to develop and implement a policy on the provision of non-audit services by the external auditor, taking into account relevant ethical guidance; to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditor's independence and objectivity);
- (xii) **Annual audit plan** at the start of each annual audit cycle, to ensure that appropriate plans are in place for the audit;
- (xiii) **Review work plan** to consider the auditor's work plan for the annual and any interim audit and proposed resources in light of the scope of the audit;
- (xiv) **Monitor audit programme** to monitor the planned programme of audits and to ascertain the reason for any change or delay in the programme;
- (xv) **Review audit findings** to review with the external auditor (in the absence of management if necessary) the results of its work in conducting the annual and any interim audit, including:
 - (A) any major issues that arose during the course of the audit (both resolved and unresolved issues);
 - (B) key accounting and audit judgements;
 - (C) levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditor as to why certain errors might remain unadjusted; and

- (D) any reservations that the external auditor may have and other matters that it wishes to raise;
- (xvi) **Representation letters** to review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested in relation to non-standard issues; to give consideration to whether the information provided is complete and appropriate based on its own knowledge;
- (xvii) **Management letter** to review the external auditor's management letter and review and monitor management's response to the external auditor's findings and recommendations; and
- (xviii) **Effectiveness of audit** at the end of the annual audit cycle, to assess the effectiveness of the audit process.

(c) Internal Audit

- (i) **Review need for internal audit function** if the Company has no internal audit function, to consider annually the need for one and make a recommendation to the board;
- (ii) **Remit** to review and approve the internal audit function's remit, having regard to the role fulfilled by the external audit function;
- (iii) **Access for head of internal auditors** to ensure that the Head of Internal Audit (if any) has direct access to the chairman of the Company and to the audit committee;
- (iv) **Effectiveness of internal audit** to monitor and review the effectiveness of the internal audit function; to ensure that the internal audit function is adequately resourced, has access to the information necessary to enable it to fulfil its mandate, and is able to perform in accordance with appropriate professional standards for internal auditors; and

- (v) **Head of Internal Audit** to approve the appointment or termination of appointment of the Head of Internal Audit.

(d) Financial Statements

- (i) **Integrity of financial statements** to monitor the integrity of the financial statements of the Company, including any interim reports and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them, focusing particularly on:
 - (A) **Significant policies** considering significant accounting policies, any changes to them and any significant estimates and judgements;
 - (B) **Appropriate accounting treatment** where the accounting treatment is open to different approaches, considering whether the Company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements, taking into account the external auditor's view;
 - (C) **Disclosures** reviewing the clarity and completeness of disclosures in the financial statements and considering whether the disclosures made are set properly in context;
 - (D) **Adequacy of financial reporting** where, following its review, the audit committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board; and
 - (E) **Review related information** reviewing related information presented with the financial statements, including the operating and financial review (if any), and corporate governance statements relating to audit and risk management.

(e) Internal Control and Risk Management

- (i) **Review systems** to review the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the Group's internal control and risk management systems;
- (ii) **Whistleblowing** to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action; and
- (iii) **Internal investigations** to consider the major findings of internal investigations and management's response.

(f) Reporting Responsibilities

- (i) **Going concern statement** to review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the group and any supporting assumptions and qualifications;
- (ii) **Committee report** to assist the board by preparing a statement for inclusion in the directors' report (to shareholders as contained in the annual report) describing the roles and responsibilities of the audit committee and actions taken by the committee to discharge those responsibilities; to list the names and qualifications of the chairman and other members of the committee, the number of committee meetings and attendance by each member;
- (iii) **Internal control statement** to produce for the board's approval the statement for inclusion in the annual report in relation to internal control and the management of risk;

- (iv) **No internal audit function** where there is no internal audit function, to set out the reasons for the absence of such a function in the relevant section of the annual report;
- (v) **Non-audit services** if the external auditor provides non-audit services, to provide an explanation for inclusion in the annual report of how auditor objectivity and independence is safeguarded; and
- (vi) **Board** the chairman of the audit committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities. The chairman will identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.
- (vii) **AGM** The chairman of the audit committee shall be available to answer questions about the committee's activities at the annual general meeting of the Company.

(g) Other

- (i) **Auditors** to ensure co-ordination of the internal and external auditors;
- (ii) **Terms of Reference** to make available these terms of reference, (explaining the role and the authority delegated to it by the board) on request and by including the information on the Company's website;
- (iii) **Other matters** to consider any other topics, as referred to it by the board; and
- (iv) **Performance review** at least once a year to review its own performance, composition and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary to the board for approval.