

LAMPRELL PLC (THE *COMPANY*)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS (THE *COMMITTEE*)

Adopted by the Board on 24th September 2008

Constitution

1. The 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. Its terms of reference replace the terms of reference of any pre-existing audit committee.

Membership

2. The Committee, for so long as the Company has only two independent non-executive directors, shall comprise two members and otherwise shall comprise not less than three¹ members, in each case appointed by the Board from amongst the independent non-executive directors of the Company. Any member who is determined no longer to be independent shall resign from the Committee. The Committee Chairman shall be appointed by the Board. In the absence of the Committee Chairman, the members attending shall elect one of them to be chairman for that meeting. The quorum for meetings of the Committee shall be two.

3. Appointments to the Committee shall be for a period of up to three years which may be extended by two further three-year periods, provided that the members continue to be independent.

4. At least one member of the Committee shall have been determined by the Board to have recent and relevant financial experience. The members of the Committee shall be provided with an induction programme and appropriate and timely training relevant to their membership of the Committee.

5. The Chairman of the Board, executive directors and other members of management of the Company shall not be members of the Committee. They, together with other relevant or expert person(s), representative(s) of the external auditors and/or the head of the Company's finance division (*Finance*), may attend meetings at the invitation of the Committee Chairman.

6. Appointments to the Committee shall be made by the Board on the recommendation of the Nomination Committee.

¹ Note that the Combined Code allows the audit committees of smaller companies (those who have not been within the FTSE 350 within the last year) to have only two members. The same derogation would allow the Company's chairman to be a member of the Committee, although he may not chair the Committee.

Secretary

7. The Company Secretary or his or her nominees shall act as the secretary of the Committee.

Meetings

8. The Committee shall meet at least three times a year or more frequently as circumstances require. At least once a year, without the presence of executive management, the Committee shall meet separately with each of the external auditors and the head of Finance (the *Chief Financial Officer*) to discuss matters relating to its remit and any issues arising from the audit. In addition, the Chief Financial Officer shall be given the right of direct access to the Committee Chairman.

9. The Committee shall have access to the services of the Company's secretariat function on all Committee matters, including assisting the Committee Chairman in planning the Committee's work, drawing up meeting agendas, 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.

Notice of Meetings

10. 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.

11. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of the 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, no later than two working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

Reporting Responsibilities

12. The secretary shall minute the proceedings and the resolutions of all Committee meetings, including the names of those present and in attendance. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflict of interest and minute them accordingly. Minutes of Committee meetings 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.

13. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

14. The Committee shall bring to the attention of the Board and/or make appropriate recommendations to the Board concerning those matters that have been

considered or reviewed by it at the meeting of the Board next following a meeting of the Committee.

15. The Committee Chairman shall attend the Annual General Meeting and shall be prepared to respond to any shareholder questions on the Committee's activities raised at that meeting.

Authority

16. The Committee is authorised by the Board to:

- (a) investigate any activity within its terms of reference;
- (b) seek any information that it properly requires from any employee of the Company or any subsidiary company in order to perform its duties and all employees are directed by the Board to co-operate with any request made by the Committee; and
- (c) call any employee to be questioned at a meeting of the Committee as and when required.

17. If the Committee considers it necessary so to do, it is authorised to obtain appropriate external advice to assist it in the performance of its duties and to secure the services of outsiders with relevant experience and expertise and to invite those persons to attend meetings of the Committee. The cost of obtaining any advice or services shall be paid by the Company within the limits authorised by the Board.

Duties

18. The duties of the Committee shall be to:

- (a) consider the appointment, resignation or dismissal of the external auditor;
- (b) investigate the issues leading to any resignation of an auditor and decide whether action is required;
- (c) discuss with the external auditor the nature and scope of the audit (including any significant ventures, investments or operations which are not subject to audit);
- (d) make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (e) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, satisfying itself that there are no relationships between the external auditor and the Company (other than in the course of business) and taking into consideration relevant UK and Isle of Man professional and regulatory requirements;

- (f) develop and implement the Company's policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor;
- (g) review and consider the results of the external audit, its cost effectiveness and the audit fee;
- (h) assess annually the qualifications, expertise and resources of the external auditor;
- (i) consider communications from the external auditor on statutory and regulatory audit planning and findings and on material weaknesses in accounting and internal control systems that came to the external auditor's attention;
- (j) agree with the Board a policy on the employment of former employees of the external auditor, then monitor the implementation of this policy;
- (k) review and discuss with management and the auditors the preliminary results, interim information and annual financial statements before submission to the Board, focusing particularly on:
 - (i) the quality and acceptability of the accounting policies and practices and financial reporting disclosures and changes thereto;
 - (ii) areas involving significant judgement, estimation or uncertainty;
 - (iii) the detecting of material misstatements by the auditors that individually or in aggregate have not been corrected and management's explanations as to why they have not been adjusted;
 - (iv) the basis for the going-concern assumption;
 - (v) their complying with financial reporting standards and relevant financial and governance reporting requirements;
- (l) discuss any difficulties, reservations or other matters arising from the external auditor's audits (in the absence of management where necessary);
- (m) review, prior to its consideration by the Board, the external auditor's report to the directors and management's response;
- (n) review the Company's internal financial controls, the Company's internal control and risk management systems and the Company's annual statement on internal control systems and in particular where requested by the Board to review:
 - (i) the policies and overall process for identifying and assessing business risks and managing their impact on the Company;

- (ii) regular assurance reports from management, Finance, the external auditor and others on matters related to risk and control;
 - (iii) the timeliness and effectiveness of corrective action taken by management;
- (o) consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems;
- (p) consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management where necessary);
- (q) consider the disclosure about the role of the Committee included in the annual report and compile a report to shareholders on the Company's activities to be included in its annual report;
- (r) monitor and review the effectiveness of the Company's Finance function;
- (s) approve the appointment and removal of the Chief Financial Officer;
- (t) review other disclosures or documents as determined by the Board;
- (u) monitor systematically and obtain assurance that the executive limitations relating to financial matters (which require certain expenditure and commitments to be approved by the Board) are being observed;
- (v) review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective shall be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- (w) consider other topics, as defined by the Board, such as the Company's policies for preventing or detecting fraud, its code of corporate conduct/business ethics, or the policies for ensuring that the Company complies with relevant regulatory and legal requirements;
- (x) to consider any other matters as may be requested by the Board; and
- (y) to make available its terms of reference and review annually those terms of reference and its own effectiveness and recommend any necessary changes to the Board.