

Role of the Committee

The primary role of the Audit Committee, which reports its findings to the Board, is to ensure the integrity of the financial reporting and audit processes, and the maintenance of a sound internal control and risk management system. In pursuing these objectives, the Committee:

- monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- makes recommendations to the Board regarding the adoption of annual and interim financial reports;
- reviews the Company's internal financial controls and internal control and risk management systems;
- monitors and reviews the effectiveness of the Company's internal audit function;
- makes recommendations to the Board regarding the external Auditors and their terms of appointment;
- reviews and monitors the external Auditors' independence and objectivity and the effectiveness of the audit process;
- is responsible for developing and implementing a policy on the engagement of the external Auditors to supply non-audit services; and
- makes recommendations to the Board in relation to 'whistleblowing' policies and procedures.

In the performance of its duties, the Committee has independent access to the services of the internal audit function and to the external Auditors, and may obtain outside professional advice as necessary. Both the Head of Internal Audit and the external Auditors have direct access to the Chairman of the Committee outside formal committee meetings.

The Committee has written terms of reference that outline its authority and responsibilities. These are considered annually by the Audit Committee and any proposed changes are referred to the Board for approval. The Committee's current terms of reference are available upon request from the Company Secretary and on the Company's website.

Membership

The Committee presently comprises John Biles (Chairman), the Hon. James Bruce, Grey Denham and Andrew Osborne, all of whom are considered independent Non-Executive Directors pursuant to the Code. Their biographical details are set out on page 35. There were no changes to the membership of the Committee during 2006. The Company Secretary acts as Secretary to the Committee.

The Board, as part of the review of the effectiveness of the Board and its committees, has satisfied itself that The Hon. James Bruce, John Biles and Andrew Osborne all have recent and relevant financial experience, as defined in the Code.

Report on the Committee's activities in 2006

Meetings and attendance

The Committee met on four occasions in 2006 timed to coincide with the financial and reporting cycles of the Company. Committee members' attendance at the meetings held during the year is set out in the table contained in the Corporate Governance report on page 39.

The Chief Executive, Finance Director, representatives of the external Auditors, the Head of Internal Audit and senior financial executives from head office and the operations attended meetings by invitation for appropriate business. In addition, the members of the Committee meet separately with the external Auditors and the Head of Internal Audit, to discuss matters without the Executive Directors being present.

In addition, during the year the Chairman of the Audit Committee has had additional meetings with the Company's senior financial managers to review a range of financial matters, and has also met with external and internal Auditors prior to Audit Committee meetings.

Financial reporting

During 2006 the Committee reviewed a wide range of financial reporting and related matters including the interim and annual financial statements prior to their submission to the Board. The Committee focused in particular on key accounting policies and practices adopted by the Company and its subsidiaries and affiliates and significant areas of judgement that materially impacted reported results.

External Auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Company's policies on external audit. The Audit Committee has reviewed those services provided by the external Auditors throughout the year in accordance with the Company's policy on the provision of non-audit services by the external Auditors. This policy notes that such services are likely to fall within the following types: (a) financial statements and external reports, (b) acquisitions, (c) disposals, (d) taxation and (e) other services. It identifies three categories of non-audit services: permitted engagements that require no specific approval; permitted engagements requiring the approval of the Committee Chairman; and engagements that are not permitted.

In accordance with its remit, the Committee reviewed and approved the external Auditors' plans for the audit of the Company's 2006 financial statements. In approving the terms of engagement for the audit, the Committee considered the proposed audit fee and associated expenses.

During the year the Committee performed its annual review of the effectiveness of the Company's external Auditors, and has recommended to the Board that PricewaterhouseCoopers LLP be reappointed as the external Auditors of the Company. The Committee remains satisfied as to the independence of the external Auditors following a review at its meeting on 6 March 2007, and has received written confirmation from the external Auditors to this effect. A new senior audit engagement partner was appointed during the year in accordance with professional standards on the rotation of key audit staff.

Internal audit and monitoring of control issues

At its meetings during 2006, the Committee reviewed the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to the matters raised, including the implementation of recommendations made by the function. It also reviewed and approved the internal audit plan for the coming year and the level of resources allocated to the internal audit function. The effectiveness of the internal audit function was reviewed based primarily on guidelines issued by the Institute of Internal Auditors. Following the internal promotion of the existing Head of Internal Audit, since the year end a new Head of Internal Audit has been appointed.

The Committee reviewed the reports from the internal audit function and the external Auditors on the Company's systems of internal control and reported to the Board on the results of these reviews. Further details of the Company's system of internal control and its policies and procedures can be found in the Corporate Governance report on page 41.

Whistleblowing

The Company has adopted a whistleblowing policy, which has been monitored by the Audit Committee during the course of 2006.

Issues that have, during the year, been raised through the Company's whistleblowing procedures have been considered by the Committee, and any follow-up actions have been taken as and when required.

On behalf of the Committee

John Biles

Chairman of the Audit Committee
14 March 2007