

# COOKSON GROUP plc

## **Terms of Reference for the Audit Committee** **(as adopted by the Board on 11 December 2007)**

### **1. Constitution**

The Board hereby resolves to adopt these revised Terms of Reference for the Audit Committee established by a resolution of the Board passed on 26 January 2000. The Terms of Reference have been revised to take account of, inter alia, the provisions of the UK Combined Code on Corporate Governance published in July 2003 (the "Combined Code").

### **2. Remit**

The Board recognises that the function of the Audit Committee is oversight. In fulfilling their responsibilities, as set out hereunder, it is recognised that members of the Audit Committee are not full-time employees of the Company and are not performing the functions of auditors or accountants.

### **3. Purpose**

The main purposes of the Committee are:

- 3.1 To help ensure public confidence in the credibility and objectivity of the Company's published financial and non-financial information.
- 3.2 To assist the Board in meeting its responsibilities in respect of statutory or other financial reporting and in respect of its review of the effectiveness of the Group's internal controls and risk management systems, which include disclosure controls and procedures.
- 3.3 To strengthen the independent position of the Company's external auditors by providing a direct channel of communication between the external auditors and the Non-executive Directors.

### **4. Membership**

- 4.1 The Committee shall be appointed by the Board and shall consist of not less than three members, all of whom shall be independent (to satisfy the independence criteria contained within the Combined Code) Non-executive Directors of the Company. In addition, the Board shall satisfy itself that at least one member of the Committee has recent and relevant financial experience (to comply with the provisions of the Combined Code). A quorum shall be two members.
- 4.2 The chairman of the Committee shall be appointed by the Board. In the absence of the Committee chairman, the remaining members present shall elect one of their number present to chair the meeting.
- 4.3 The chairman and other members of the Committee shall be named in the Company's annual report.

## **5. Attendance at Meetings**

- 5.1 Members of the Committee shall attend Committee meetings. Other persons may attend at the sole invitation of the Committee. The Chief Executive, the Group Finance Director, the Group Head of Audit and a representative of the external auditors shall normally be invited to attend meetings. Other Board members may also be invited to attend. At least once a year, the Committee shall meet with the external auditors and the Group Head of Audit without Executive Directors or Managers present. The Secretary of the Committee may attend this meeting at the discretion of the chairman.
- 5.2 Meetings may be held by telephone.
- 5.3 The Secretary or his nominee shall be the Secretary of the Committee.

## **6. Frequency of Meetings**

At least four meetings shall be held each year. The external auditor the Secretary or any member of the Committee may request a meeting if they consider that one is necessary.

## **7. Authority**

- 7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires through the relevant managerial line of responsibility from any employee and all employees are required to co-operate with any request made on the Committee's behalf. The Committee reserves the right for the external auditor to validate the accuracy and completeness of any internal data provided to it.
- 7.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice at the cost of the Company in accordance with the Company's guidelines for seeking independent professional advice and to secure the attendance at Committee meetings of other parties with relevant experience and expertise if it considers this necessary.
- 7.3 The Board authorises the chairman of the Audit Committee to attend the Annual General Meeting of the Company, to respond to any questions from shareholders on the Committee's activities and to deal with any questions relating to the resignation or dismissal of the external auditor.

## **8. Role and responsibilities**

The role and responsibilities of the Committee shall be:

- 8.1 To review and consider, with management and/or the external auditor, as appropriate, the effectiveness of the Group's internal controls, including financial and compliance controls, and risk management systems.
- 8.2 To monitor and assess the integrity of the half-year and annual financial statements of the Company and any formal announcements relating to the Company's financial performance, before their submission to the Board, focusing particularly on:
- (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments arising from the audit;

- (iv) the “going concern” assumption;
  - (v) compliance with applicable accounting and reporting standards; and
  - (vi) compliance with UK Listing Authority (UKLA) and other legal and regulatory requirements.
- 8.3 To consider all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the audit and risk management).
- 8.4 To make recommendations to the Board, to be put to the shareholders for approval in general meeting, in relation to the appointment, re-appointment or removal of the Company’s external auditor. If the Board does not accept such recommendations, the Committee shall prepare a statement explaining the recommendations for inclusion in the Company’s annual report and/or other papers recommending appointment or re-appointment of the external auditor.
- 8.5 To review the results of the external audit and its cost effectiveness and to review and monitor the external auditor’s independence and objectivity and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.
- 8.6 To develop and recommend to the Board the Company’s policy in relation to the provision of non-audit services by the external auditor and consider the possible impact on the external auditor’s independence before awarding non-audit services.
- 8.7 To approve in advance all auditing services and any permitted non-audit services (including the fees and terms thereof) provided by the Company’s external auditor subject to de minimis exceptions, taking into account relevant ethical guidance regarding the provision of non-audit services by the Company’s external auditor; and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 8.8 To establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, including confidential communications from employees of the Company.
- 8.9 To monitor and review the role and effectiveness of the Company’s internal audit function and audit programme in consultation with the Company’s accounting and risk management personnel, where appropriate, and its external auditor and to report to the Board thereon prior to endorsement of the programme by the Board.
- 8.10 To review the external auditor’s management letter and management’s response thereto and to resolve any disagreements between the external auditor and management regarding financial reporting.
- 8.11 To receive reports from the external auditor and internal auditors.
- 8.12 To ensure co-ordination between the internal auditors and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
- 8.13 To ensure that the Internal Audit function has direct access to the Board Chairman and the Audit Committee and is accountable to the Audit Committee.

- 8.14 After appropriate consultation with the executive directors, to appoint and should it ever be deemed necessary, dismiss the Group Head of Audit.
- 8.15 To meet with the Chief Executive and Group Finance Director to discuss any memoranda prepared by the internal auditors and external auditor for the Committee and the procedures followed by the Chief Executive and Group Finance Director to enable the Board to provide any required regulatory certifications.
- 8.16 To consider the major findings of internal investigations commissioned by the Committee and management's response thereto.
- 8.17 To consider any other matter specifically referred to the Committee by the Board.

**9. Reporting Procedures**

- 9.1 The Committee Secretary shall circulate the minutes of meetings of the Committee to all members of the Board and the Secretary of the Board.
- 9.2 The chairman of the Audit Committee will report to the Board on such matters as he considers appropriate.

11 December 2007