

# Audit committee report

The audit committee consists of five independent non-executive Directors, Neil Cross (Committee Chairman), Adrian Loader, Paolo Scaroni, Patrick Ponsolle and Manfred Stach. The Group Finance Director, the Director of Internal Audit, the Group Financial Controller and representatives from the external auditors are normally invited to attend meetings as appropriate. The committee met four times during 2004, the attendance record of members being shown in the table on page 41. Manfred Stach, who was appointed to the Committee at the end of 2003, was unable to attend meetings during 2004 due to commitments agreed prior to his appointment. He received all meeting papers and information and was able to discuss issues arising with the Committee Chairman. He waived his audit committee fee for the period under review.

The Director of Internal Audit has the right of direct access to the committee and the Chairman of the Company. The committee has the right to seek and receive any information it requires to fulfil its duties and all Directors and employees are directed to co-operate with any request made by the committee and to attend on demand any meeting of the committee to answer questions.

At each meeting in 2004, the committee met the Director of Internal Audit and representatives from the external auditors without executive management present. Attendance of members at committee meetings is shown in the Board report on corporate governance. The Chairman of the committee attends the AGM to respond to any shareholder questions that might be raised on the committee's activities.

Neil Cross has a background in investment analysis and corporate finance, is a Chartered Secretary and chairs four PLC Audit Committees. The Board is satisfied, in line with the Code, that he has both current and relevant financial experience.

## Terms of reference

The terms of reference of the committee, which are available on the Company's website, were updated during 2004 to reflect the requirements of the Code. The main responsibilities of the committee, which are set out in the terms of reference, are to:

- review the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitor, review and challenge where necessary the integrity of financial statements and formal announcements relating to the financial performance of the Group;
- consider the appointment, re-appointment and/or removal of the external auditor;
- consider any change to the independence of, objectivity of and fees to the external auditors;
- consider the effectiveness of the external audit process taking into consideration relevant UK professional and regulatory requirements;
- maintain and monitor a policy on the engagement of the external auditor to supply non-audit services;
- agree with the external auditors the scope and nature of their audit, review their quality control procedures, ensure coordination of audits, review their management letter and management's response and discuss any issues arising from their audit;
- review the programme, resourcing, effectiveness and results of the internal audit function and approve any change to the Director of Internal Audit;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- review the consistency of accounting policies;
- monitor compliance with the Group's borrowing limits; and
- monitor compliance with the principles of good boardroom practice.

## Operation of the audit committee

During the year, the business considered and discussed by the committee included:

- a review of the financial disclosures contained in the Interim and Annual Reports to shareholders, together with the associated interim and preliminary announcements;
- proposals from the external auditors about their independent review of the financial information contained within the Interim Report 2004 and their audit programme for the 2004 financial statements;
- proposals from the internal audit function about its audit programme for 2005;
- the amount of audit and non audit fees paid to external auditors in 2004 are set out in note 8 to the financial statements. The Company's policy on non-audit services provided by external auditors is set out on page 43;
- a review of the objectivity, independence and effectiveness of the external auditors. The committee, after considering a paper on the independence, objectivity and effectiveness of the external auditor, unanimously agreed to recommend the re-appointment of Deloitte & Touche LLP as the Company's external auditor at the 2005 AGM;
- an annual review of the effectiveness of the internal audit function. The committee, based on an internal assessment, considered that the internal audit function had been effective throughout 2004. The committee agreed that an external assessment of the internal audit function would be conducted in the second half of 2005. During the year, the committee considered the results of audits conducted by the internal audit function and management's response to issues raised;
- a review of the Company's compliance with the Code, including disclosures required to be included in the Annual Report 2004;
- a review of the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, further details of which are set out on page 43;

- a review of the committee's effectiveness which concluded that it had discharged its responsibilities as set out in its terms of reference;
- a review of internal controls, accounting policies and practices and risk management procedures. The committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices and risk management procedures, as well as the Company's statement on internal controls. The Board retains overall responsibility for internal control and the identification and management of risks; and
- the transition to International Financial Reporting Standards (IFRS). The committee was updated during the year on the IFRS implementation project undertaken by management and reviewed the preparatory work carried out by the external auditors on the 2004 opening balance sheet. The first external report to be prepared under IFRS will be the Interim Report 2005.

#### Policy on non-audit services

As part of its remit, the committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the external auditors. The committee has approved a policy for the approval of non-audit services provided by external auditors. Under this policy, external auditors cannot be engaged to perform any of the following services:

- bookkeeping for underlying accounting records or preparation of financial statements to be audited and used outside the Group;
- appraisals or other valuation services where the results may be incorporated in audited financial statements;
- actuarial services;
- management functions including human resources;
- investment advisory services including broking or investment banking;
- legal services;
- internal audit (on an outsourced basis);
- design and/or implementation of financial information systems; and
- any other services that a listed company's external auditors are prohibited from providing under UK or US regulations.

This list of prohibited non-audit services may only be varied by the audit committee.

Under this policy it has been agreed that, due to their significant understanding of the Group's business and therefore ensuring cost efficiency, the external auditors may be engaged for the following non-audit services:

- assistance in tax compliance activities including tax advisory services;
- due diligence activities associated with potential acquisitions or disposals of businesses;
- accountants reports for any Stock Exchange purposes and ad hoc reporting on historical financial information; and
- any other services which are not prohibited and are authorised by the audit committee.

The policy requires the fees for these permitted non-audit services to be approved in advance by the committee. Where such services are considered to be recurring in nature, such as for tax and due diligence, approval may be sought for the full financial year at the beginning of that year. Approval for other permitted non-audit services has to be sought on an ad hoc basis. Where no committee meeting is scheduled within an appropriate time frame, the approval is to be sought from the Chairman of the committee. The fee threshold for pre-approved services at 31 December 2004 was £0.6 million (€0.9 million) per annum for taxation services and £0.5 million (€0.8 million) per annum for due diligence and related services.

#### Whistleblowing

During 2004 the committee reviewed arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters in accordance with the requirements of the Code. In the UK a 24 hour helpline, managed by a third party, was introduced. This helpline provides reports to designated officers of the Company, including the Company Secretary, who in turn report cases to the committee. Throughout the rest of the Group, the Company's whistleblowing policy sets out arrangements whereby employees can report to the Company Secretary any concerns or suspicions about possible wrongdoing in financial reporting or other matters, which are reported to the committee.

#### Neil Cross

Chairman of the audit committee  
24 February 2005