

TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE OF NORTHGATE PLC

1. Membership

- 1.1. Members of the Committee shall be appointed by the Board and shall comprise at least three members, all of whom shall be independent non-executive Directors and at least one of whom should have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.
- 1.2. Only members of the Committee have the right to attend Committee meetings. However, other Directors, employees or external advisers may be invited to attend for all or part of any meeting, as and when appropriate. The Finance Director will be expected to be in attendance for all agenda items relating to risk management.
- 1.3. The external auditors will be invited to attend meetings on a regular basis.
- 1.4. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided that the Director remains independent.
- 1.5. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.
- 1.6. The Company Secretary shall act as the Secretary of the Committee.

2. Proceedings

- 2.1. The Committee shall meet at least three times a year and at such other times as the Chairman of the Committee shall require or at the request of the external auditors.
- 2.2. The quorum necessary for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 2.3. Reasonable notice of each meeting together with an agenda of items to be discussed and any relevant supporting papers shall be sent to Committee members and to other attendees as appropriate.
- 2.4. The secretary shall minute the proceedings and resolutions of all Committee meetings.
- 2.5. Minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all other members of the Board.
- 2.6. The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

- 2.7. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 2.8. The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties.
- 2.9. The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

3. The duties of the Committee shall be:

3.1. Financial Reporting

- 3.1.1 To monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other formal statements which include financial information or which relate to its financial performance.
- 3.1.2 To review and advise the Board as to whether, taken as a whole, the annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- 3.1.3 To report to shareholders, in a separate section of the annual report and accounts, on the work of the Committee in discharging its responsibilities, including:
 - 3.1.3.1 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed.
 - 3.1.3.2 an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor and information on the length of tenure of the current audit firm and when a tender was last conducted.
 - 3.1.3.3 an explanation of how auditor objectivity and independence is safeguarded in the context of any non-audit services provided by the external auditor.

3.2. Internal controls and risk management

- 3.2.1. To monitor the integrity of the Group's internal controls and risk management systems.
- 3.2.2. To review arrangements by which the Group's employees may raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and to ensure that such matters are independently investigated and follow-up action, if appropriate, is taken.

3.3 Internal Audit

- 3.3.1 To monitor and review the activities of the internal audit department.
- 3.3.2 To approve the appointment and removal of the head of the internal audit function.
- 3.3.3 To ensure that the internal audit function has adequate resources and is sufficiently independent to properly fulfill its role.
- 3.3.4 To ensure that the head of internal audit has direct access to the Chairman of the Board and to all members of the Committee and is accountable to the Committee.
- 3.3.5 To meet with the head of internal audit at least once a year without management being present.

- 3.3.6 To review and monitor management's responsiveness to the internal auditors findings and recommendations.

3.4 External Audit

- 3.4.1 To consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor.
- 3.4.2 To approve the terms of engagement and the remuneration to be paid to the external auditor.
- 3.4.3 To assess the qualification, expertise and resources, effectiveness and independence of the external auditor annually.
- 3.4.4 To agree with the Board, and monitor the application of, a policy for the employment of former employees of the external auditor.
- 3.4.5 To recommend to the Board, and monitor the implementation of, a policy in relation to the provision of non-audit services by the external auditor so as to ensure that the provision of such services does not impair the external auditors' independence and objectivity
- 3.4.6 In connection with the annual audit:
 - 3.4.6.1 To review and approve the audit plan, before the commencement of the audit process.
 - 3.4.6.2 To review the findings of the audit with the external auditor, in the absence of management where necessary.
 - 3.4.6.3 To review the management letter and monitor management's response to any recommendations made by the external auditor.
 - 3.4.6.4 To review, prior to signature, any letter of representation requested by the external auditor.
 - 3.4.6.5 At the end of the audit, to assess the effectiveness of the audit process.
- 3.4.7 To review the results of the external auditors' review of the interim financial statements and any issues arising therefrom.
- 3.4.8 To meet with the external audit partner at least once a year without management being present.

- 3.5 To investigate any other matter of a financial or accounting nature delegated by the Board.

3.6 Risk Management

- 3.6.1 To advise the Board on the Group's risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on such external authoritative sources as may be relevant to the Group's risk policies.
- 3.6.2 To monitor and advise the Board on the Group's risk exposures, including the identification of new risk types.
- 3.6.3 To keep under review the Group's risk assessment methodology and processes.
- 3.6.4 To advise the Board on the risk implications for the Group of proposed strategic transactions, including acquisitions and disposals.
- 3.6.5 To review the Group's procedures for the detection of fraud and the prevention of bribery.
- 3.6.6 To keep under review the effectiveness of the Group's business continuity, disaster recovery and emergency response plans.
- 3.6.7 To review reports on any material breaches of risk limits and the adequacy of management's response and any proposed remedial action.

- 3.6.8 To recommend to the Board procedures and parameters to manage and monitor key business KPIs, such as gearing and ROCE, in both growth and recession scenarios.
- 3.7 To report to the Board annually on how the Committee has discharged its responsibilities, including the significant issues that it considered in relation to the financial statements and how those issues were addressed and any other issues on which the Board requested the Committee's opinion.
- 4. The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 5. The Chairman of the Committee (or, if he is unable to be present, another member designated for the purpose) shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.