

R.E.A. HOLDINGS PLC
TERMS OF REFERENCE OF THE AUDIT COMMITTEE
(Adopted pursuant to a resolution of the board dated 27 April 2005)

1. INTRODUCTION

The Combined Code on Corporate Governance (July 2003) (the "**Combined Code**") provides that "*the board should establish an audit committee...*".

Copies of the Combined Code and the Smith guidance on audit committees (which is attached to but does not form part of the Combined Code) (the "**Smith Guidance**"), should members of the Committee need to consult them, can be obtained from the company secretary.

These terms of reference set out the terms upon which the audit committee of the Board ("the Committee") is now appointed, the role to be performed by the Committee, and the authority delegated to the Committee by the Board. Such terms take effect from 27 April 2005 and shall be in substitution for the previous terms of reference of the Committee which shall be of no further effect.

2. TERMS OF REFERENCE TO BE MADE AVAILABLE

The Committee shall make available these terms of reference by causing them to be published on the Company's website and by providing copies of the terms upon written request.

3. MEMBERSHIP

3.1 The members of the Committee shall be appointed by the Board. The Committee shall be made up of at least two members. At least one member shall have recent and relevant financial experience.

3.2 A majority of members of the Committee shall be independent non-executive directors.

3.3 The Board shall appoint the Committee Chairman who shall be an independent non-executive director.

4. SECRETARY

The company secretary or its nominee shall act as the secretary of the Committee.

5. MEETINGS

5.1 **Frequency:** Meetings of the Committee shall be held as required.

5.2 **Right to attend:** No one other than the Committee chairman, the Committee members and the company secretary shall be entitled to be present at a meeting of the Committee but others may attend for all or any part of the meeting at the invitation of the Committee. The external auditors will be invited to attend meetings of the Committee at least once a year.

5.3 **Notice:** Meetings of the Committee shall be summoned by the secretary of the Committee at the request of the chairman of the Committee. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee and, to the extent appropriate, any other person invited to attend no fewer than three working days prior to the date of the meeting.

- 5.4 **Quorum:** The quorum necessary for the transaction of business shall be two members. 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.
- 5.5 **Chairman:** In the absence of the appointed chairman of the Committee, the remaining members present shall elect one of their number to chair the meeting. The chairman of the Committee shall have a casting vote on all matters in the event of an equality of votes.
- 5.6 **Minutes:** Minutes shall be prepared of the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. The Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and of the Board.

6. **ANNUAL GENERAL MEETING**

The Chairman of the Committee shall endeavour to attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

7. **DUTIES**

In discharging the duties set out below, the members of the Committee shall have regard to the Main and Supporting Principles at C.1 to C.3 of the Combined Code and the related Combined Code Provisions; they may also choose to consult the Smith Guidance.

7.1 **Financial Reporting**

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
- (b) The Committee shall review and challenge where necessary:
- (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the group;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the view of the external auditor;
 - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
 - (v) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.2 **Internal Controls**

The Committee shall keep under review the effectiveness of the Company's internal controls.

7.3 **Whistleblowing**

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

7.4 **Internal Audit**

The Committee shall monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

7.5 **External Audit**

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- (b) oversee the relationship with the external auditor including (but not limited to):
 - (i) approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - (v) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (vi) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- (c) procure that members of the Committee are available to meet regularly and informally with the external auditor as required and meet formally with the auditor at the reporting stage and, when requested by the auditor, without management present;
- (d) review the findings of the audit with the external auditor; this shall include but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;

- (ii) any accounting and audit judgements; and
 - (iii) levels of errors identified during the audit.
- (e) develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

7.6 **Reporting Responsibilities**

The Committee shall:

- (a) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
- (b) when so required by the Board, make recommendations concerning the statements to be incorporated in the annual report of the Company identifying the membership of the Committee, the frequency of, and attendance by members at, Committee meetings over the course of the year and describing the work of the Committee in discharging its duties (including an explanation how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded).

7.7 **Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required and, to the extent that the Committee considers it appropriate, access to training lectures and courses
- (b) offer induction programmes to new members; and
- (c) give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate.

8. **AUTHORITY**

The Committee is authorised:

- (a) to seek any information it requires from any employee of the Company in order to perform its duties;
- (b) to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference when the Committee reasonably believes it necessary to do so; and
- (c) to call any member of staff to be questioned at a meeting of the Committee as and when required.