

# **SMITHS GROUP PLC**

## **AUDIT COMMITTEE**

### **Terms of Reference**

**The Audit Committee shall have the following terms of reference**

#### ***1. Constitution***

- 1.1 The Board has established a committee of the Board known as the Audit Committee.
- 1.2 The Terms of Reference for the Committee outlined below are defined by the Board and may be amended by the Board at any time.

#### ***2. Membership and Operation***

- 2.1 The Audit Committee shall comprise not fewer than three members, all of whom shall be independent Non-Executive Directors. The quorum shall be two Committee members present throughout the meeting in person or by telephone, one of whom should be the Committee Chairman, unless he is unable to attend. In the absence of the Committee Chairman, the members present at any meeting of the Committee shall elect one of their number to chair the meeting. All members of the Committee shall be advised of the business to be transacted at any meeting even if they are unable to be present.
- 2.2 The Board, acting on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee and in accordance with the Company's Articles of Association, is the sole authority for the appointment of members and a new Chairman of the Audit Committee and for the revocation of any such appointments. At least one member of the Committee shall have recent and relevant financial experience.
- 2.3 An appointment to the Audit Committee shall be for a period of three years, which may be extended for a second three year period and, only after rigorous review by the Board, for a further three year period, provided that the Director remains an independent Non-Executive Director.

- 2.4 The Chairman of the Committee shall be an independent Non-Executive Director. No one other than members of the Committee is entitled to be present at Committee meetings. However, unless otherwise indicated by the Chairman of the Committee, all Non-Executive Directors who are not members of the Committee are welcome to attend all meetings of the Committee. Also, the Chief Executive, Financial Director, General Counsel, Group Financial Controller, Director, Internal Audit and the Company's external auditors shall normally be invited to attend. Other executives and external advisers may be invited to attend for all or part of any meeting.
- 2.5 At least once a year, the Audit Committee shall meet with the external and internal auditors, without management, to discuss matters relating to its remit.
- 2.6 The Company Secretary or Deputy Group Secretary shall act as secretary to the Committee and shall provide notice of the Committee's meetings and produce such papers for and minutes of the meetings as are appropriate, in a timely manner. After approval and signature by the Chairman of the Audit Committee, the secretary shall circulate them to all members of the Committee, the Company Chairman and, unless otherwise indicated by the Chairman of the Committee in exceptional circumstances, to the other Non-Executive Directors of the Company, Chief Executive, Financial Director, General Counsel and any invited attendees, if applicable.
- 2.7 The Audit Committee shall be provided with sufficient resources to undertake its duties. The Committee is authorised by the Board to obtain independent legal, accounting and other professional advice from both inside and outside the group as and when required, at the Company's expense, and to appoint external consultants and advisers if it considers this necessary or desirable.
- 2.8 Each member of the Audit Committee shall disclose to the Committee:
- (a) any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
  - (b) any potential conflict of interest arising from a cross-directorship.
- Any such member shall abstain from voting on resolutions of the Audit Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the Board) shall resign from the Committee.
- 2.9 The Audit Committee is authorised to seek any information it requires from any employee of the group. All employees are directed to co-operate with any request made by the Committee.

- 2.10 A member of the Audit Committee may participate in a Committee meeting by telephone.
- 2.11 In the event of equality of votes, the Chairman of the Audit Committee shall have a casting vote.

### **3. Frequency of meetings**

- 3.1 Meetings of the Audit Committee shall be held as necessary but not fewer than three times a year and at such other times as the Chairman of the Committee shall require.

### **4. Duties**

#### 4.1 Financial Reporting

- i. The Audit Committee shall monitor the integrity of the financial statements of the Company including its annual and interim reports, preliminary announcements and any other formal announcements relating to its financial performance, reviewing significant financial judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to the Financial Services Authority and any other applicable regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature. The Committee shall make such recommendations to the Board as it considers appropriate in relation to the Company's annual and interim reports and the other statements, announcements, returns and documents mentioned in this paragraph.
- ii. The Audit Committee shall review and challenge where necessary:
  - the consistency of, and any changes to, accounting policies both on a year on year basis and across the group;
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
  - the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - all material information presented with the financial statements, such as the operating and financial review and the corporate governance statements (insofar as it relates to the audit and risk management).

#### 4.2 Internal Controls and Risk Management Systems

The Audit Committee shall:

- keep under review the effectiveness of the Company's system of internal controls and process for the identification, evaluation and management of significant business risks; and
- review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

#### 4.3 Code of Corporate Responsibility and Business Ethics and Corporate Responsibility and Business Ethics Programme

The Audit Committee shall:

- i monitor the implementation of the Company's Code of Corporate Responsibility and Business Ethics ("Code") and Corporate Responsibility and Business Ethics Programme ("Programme") and compliance with their provisions; and
- ii review the Company's arrangements for its employees to raise concerns, anonymously or in confidence and without fear of retaliation, about possible wrongdoing in financial reporting or other matters arising under the Code or the Programme. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

#### 4.4 Internal Audit

The Audit Committee shall:

- i. monitor and review the effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system;
- ii. approve the appointment and removal of the Director, Internal Audit;
- iii. consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively;
- iv. review and assess the annual internal audit plan;
- v. review promptly all reports on the Company from the internal auditors;
- vi. review and monitor management's responsiveness to the findings and recommendations of the internal auditors; and

- vii. meet the Director, Internal Audit, at least once a year, without management being present, to discuss his remit and any issues arising from the internal audits carried out. In addition, the Director, Internal Audit shall have the right of direct access to the Company Chairman and the members of the Committee.

#### 4.5 External Audit

The Audit Committee shall:

- i. consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditors. 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;
- ii. in the event that the Board does not accept the Audit Committee's recommendation on the appointment, re-appointment and removal of external auditors, prepare a statement explaining the Committee's recommendation which shall be included in the Annual Report and in any papers recommending appointment or re-appointment together with the Board's reasons for taking a different position.
- iii. oversee the relationship with the external auditors including (but not limited to):
  - 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;
  - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non audit services;
  - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditors and the Company (other than in the ordinary course of business);
  - agreeing with the Board a policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;

- monitoring the auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared with the overall fee income of the firm, office and partner and other related requirements; and
  - assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
- iv. meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- v. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- vi. review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
  - a discussion of any major issues which arose during the audit,
  - any accounting and audit judgements,
  - levels of errors identified during the audit, and
  - any reservations that the external auditors may have and other matters that they wish to raise.
- vii. in reviewing the effectiveness of the audit:
  - review any representation letter(s) requested by the external auditors before they are signed by management;
  - review the management letter and management's response to the auditors' findings and recommendations; and
  - develop and implement a policy on the supply of non audit services by the external auditors, taking into account any relevant ethical guidance on the matter.

#### 4.6 Reporting Responsibilities

- i. The Audit Committee Chairman shall report formally to the Board after each meeting; and
- ii. The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

#### 4.7 Other Issues

The Audit Committee shall:

- i. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- ii. be responsible for co-ordination of the internal and external auditors;
- iii. oversee any investigation of activities which are within its terms of reference; and
- iv. 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. Other Matters**

- 5.1 The Audit Committee will consider and recommend to the Board the content of the section in the Annual Report describing the work of the Committee, having regard to the Combined Code on Corporate Governance and the UKLA Listing Rules. The Chairman and members of the Committee shall be listed in the Annual Report together with a statement of the number of Committee meetings and attendance by each member.
- 5.2 The Chairman of the Audit Committee shall be available to answer questions at the Annual General Meeting on the Committee's activities.
- 5.3 The Audit Committee shall undertake any other duties as directed by the Board.
- 5.4 The Audit Committee shall make available these Terms of Reference, explaining the role and the authority delegated to it by the Board, on request and by including the information on the Company's website.

These Terms of Reference were adopted by the Board on 18 May 2004 and revised on 19 April 2005.