

**MELROSE PLC**  
**(the “Company”)**

**AUDIT COMMITTEE**  
**(the “Committee”)**  
**Composition and Terms of Reference**

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**Purpose**

The purpose of the Audit Committee is to monitor the integrity of financial statements of the Company, subsidiary undertakings and the group as a whole, to review accounting policies and procedures, to monitor the effectiveness of financial reporting, internal financial control and risk management systems, to ensure compliance with statutory requirements and to oversee the relationship with external auditors and to consider any matters raised by the external auditors.

The Committee is established in accordance with article 101 of the Articles of Association of the Company.

**1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board of the Company, on the recommendation of the Nomination Committee and in consultation with the chairman of the Audit Committee. The Committee shall comprise all non-executive Directors.
- 1.2 All members of the Committee shall be independent non-executive Directors at least one of whom shall have recent and relevant financial experience. The Chairman of the Board of the Company shall not be a member of the Committee.
- 1.3 No one other than a Committee Member is entitled to attend meetings of the Audit Committee but upon invitation the Chairman, Chief Executive, Finance Director, other Directors of the Company and other persons may

attend meetings of the Committee whenever considered appropriate by the Committee.

1.4 Representatives of the external auditors will be invited to attend meetings of the Committee on a regular basis.

1.5 Appointments to the Committee shall be for a period of up to three years which may be extended by two further three-year periods, provided the member remains independent.

1.6 The Committee will be chaired by Mr M H Templeman or, in his absence, such other non-executive Director of the Company as he might nominate for that purpose.

## 2. **Secretary**

The Secretary of the Committee shall be the Secretary of the Company.

## 3. **Quorum**

A quorum shall be any two members of the Committee.

## 4. **Frequency of Meetings**

Meetings shall be held not less than three times a year at appropriate times in the financial reporting and audit cycle, and otherwise as required.

## 5. **Notice of Meetings**

5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of an executive Director or the external auditors if they consider it necessary.

5.2 Unless otherwise agreed, the 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 any other person required to attend, generally no later than 5 working days before the date of the meeting.

## 6. **Minutes**

6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

## 7. **Annual General Meeting**

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

## 8. **Duties**

The Committee shall perform the duties as set out below

### 8.1 Financial reporting

The Committee shall:

8.1.1 review and monitor the integrity of the financial statements of the Melrose Group, including its half-yearly accounts and the annual report, interim management statements and any other formal announcements relating to the financial performance of the Melrose Group,

8.1.2 focus particularly on and challenge where necessary:

- the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- the methods used to account for significant or unusual transactions where different approaches are possible, including any significant areas where the Directors' judgement has been exercised;
- the going concern assumption;
- compliance with appropriate accounting standards and appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity 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 statement (insofar as it relates to the audit and risk management functions); and
- other legal, UK Listing Authority or recognised investment exchange requirements;

8.1.3 submit the documents referred to in paragraph 8.1.1 to the Board for its approval and to determine what information should be brought to the Board's attention in connection with that submission;

## 8.2 Internal controls and risk management systems

The committee shall

8.2.1 keep under review the effectiveness of the Company's financial reporting, internal controls and risk management systems; and

8.2.2 review any statement on internal control and/or risk management to be included in the annual report before submission to the Board for its approval; and

8.2.3 annually consider whether there should be an internal audit function and make a recommendation to the Board accordingly.

## 8.3 Whistleblowing and fraud

The Committee shall

8.3.1 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; and

8.3.2 instigate, and consider the findings of, any investigations it may deem necessary;

## 8.4 External audit

The committee shall

8.4.1 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 external auditors and any questions of their resignation or dismissal. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading up to this and decide whether any action is required

8.4.2 oversee the relationship with the external auditor including:

- review of their remuneration, whether for audit or non-audit services and consider whether the level of fees is appropriate to enable an adequate audit to be conducted;
- review of the terms of engagement, the nature and scope of their work;
- assess annually the independence and objectivity of external auditors, taking into account relevant professional and regulatory requirements and the provision of any non-audit services.
- satisfy itself that there are no relationships (family, employment, investment) between the auditor and the company (other than in the ordinary course of business);
- agree with the Board a policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;
- monitor 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
- Assess annually the auditor's 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

8.4.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. Act as a forum for discussion of areas of concern arising from the final audit, or matters the auditors may wish to discuss;

8.4.4 review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement

8.4.5 review the findings of the audit with the external auditor, including:

- a discussion of any major issues which arose during the audit
- any accounting and audit judgements
- levels of errors identified during the audit.

8.4.6 review any representation letters requested by the external auditors before they are signed by management

8.4.7 review management's response to auditor's findings and recommendations

8.4.8 develop and implement a policy on the supply of non-audit services;

## 8.5 Reporting

The Committee shall:

8.5.1 report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities

8.5.2 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and

8.5.3 compile a report to shareholders on its activities to be included in the Company's annual report.

## 8.6 Other

The Committee shall,

8.6.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

8.6.2 be provided with appropriate and timely training, both on induction and ongoing for all members;

8.6.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate.;

8.6.4 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;

8.6.5 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.

## 9. Authority

The Committee is authorised by the Board to:

- 9.1 investigate any activity within its terms of reference;
- 9.2 obtain independent professional advice on any matter it considers appropriate to its terms of reference;
- 9.3 seek any information it requires from any employee of the Company and/or any of its subsidiaries from time to time (together, the "**Melrose Group**") (and all employees are directed to co-operate with any request made by the Audit Committee); and
- 9.4 invite anyone that it considers to have relevant knowledge and experience to attend its meetings as necessary.

December 2007