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SUMMARY OF THE ROLE OF THE AUDIT COMMITTEE

The members of the Audit Committee are appointed by the Board from the non-executive Directors. The main role and responsibilities of the Committee include:

- considering and making recommendations to the Board regarding the appointment of the external auditor, the audit fee, and any questions of the resignation or dismissal of the external auditor;
- considering (if appropriate) the degree of any work undertaken by the external auditor for the Group other than the statutory audit;
- reviewing the half-year and annual Financial Statements before submission to the Board and to report on them to the Board;
- discussing with the external auditor problems and reservations, if any, arising from the interim and final audits and any other matters the external auditor may raise;
- reviewing the internal audit programme, to receive periodical reports from the Group Finance Director, to consider the major findings of internal audit investigations and management's response, to ensure co-ordination between the Group and the external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- reviewing the effectiveness of internal control systems, and the external auditor's management letter and management's response;
- reviewing the effectiveness of the risk management process ensuring that the process is active and dynamic;
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues are effectively identified and communicated to the Board; and
- considering any other topics specifically delegated to the Committee by the Board from time to time.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken.

The Audit Committee's Terms of Reference were reviewed and updated during the year, and may be found on the Company's website.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee, all of whom are independent non-executive Directors, are: David Best (Chairman), Ian Much and Michael Steel. Michael Steel was appointed to the Committee on 1 May 2008, upon his appointment to the Board. All members of the Committee have significant commercial and financial experience at a senior management level. David Best has the recent and relevant financial experience required by the Combined Code to chair the Committee. Two members constitute a quorum for the Committee.

The Board expects the Audit Committee to have an understanding of:

- the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Group's operations including corporate policies, Group financing, products and systems of internal control;
- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

MEETINGS

The Audit Committee met three times during the year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical, although each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee normally invites the non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller, Group Internal Auditor, and senior representatives of the external auditors to attend all of its meetings, although it reserves the right to request any of these individuals to withdraw.

The Audit Committee also holds separate discussions with the Auditors without the presence of executive management.

OVERVIEW OF THE ACTIONS TAKEN BY THE AUDIT COMMITTEE TO DISCHARGE ITS DUTIES

During the year, the Audit Committee:

- reviewed the Financial Statements in the 2007 Annual Report, and the Interim Report issued in August 2008, as well as other formal announcements relating to the Group's financial position. As part of this review, the Committee received a report from the external auditors on their audit of the Annual Report and the work carried out on the Interim Report;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditors;
- agreed the fees to be paid to the external auditors for their audit of the 2008 Accounts and review of the Interim Report;
- reviewed its own effectiveness;
- agreed a programme of work for the Group Internal Auditor;
- carried out an evaluation of the performance of the external auditors; and
- received reports from the Group Internal Auditor on the work he had undertaken and the management responses to the proposals made in his audit reports during the year.

EXTERNAL AUDITORS

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The Audit Committee is also responsible for monitoring the external auditors' independence, objectivity and compliance with regulatory requirements.

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Whilst the Company does not have a policy of subjecting its external auditors to a regular fixed-term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditors.

The Audit Committee has reviewed, and is satisfied with, the effectiveness and independence of the external auditors.

The Audit Committee reviews the scope, cost and timing of the work of the external auditors, and acts to ensure their findings are appropriately implemented. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2008, £0.2m (2007 – £0.2m) was paid in fees to the external auditors for non-audit work, relating to tax compliance and tax advice. The Committee considered it was beneficial for the Company to retain Deloitte LLP for this work because of their expertise in this area and knowledge of the Group. However, the Committee will continue to keep the nature and extent of such services under review, in order to balance the maintenance of objectivity and value for money.

To assess the effectiveness of the external auditors, the Committee reviewed the external auditors' performance during the year and their fulfilment of the agreed audit plan.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviewed:

- the changes in key external audit staff: the Audit Partner last rotated in 2005. A new Audit Partner is to take over the role by rotation, following completion of the audit of the 2008 Financial Statements;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest and to maintain their independence; and
- the overall extent of non-audit services provided by the external auditors.

As a consequence of its satisfaction with the results of the activities of the external auditors, the Committee has recommended to the Board that Deloitte LLP is reappointed.

INTERNAL CONTROL

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of the Financial Statements, for identifying, evaluating and managing significant risks, including non-financial risks, faced by the Group. This process is regularly reviewed by the Board and has been further improved during the year. The process continues to be in accordance with the Turnbull guidance on internal control.

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. This information is presented to the Board for it to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should contribute in a substantial way, and this has been built into the process.

In carrying out its review of the effectiveness of internal control in the Group, the Board takes into consideration the following key features of the risk management process and system of internal control:

- the senior management of each business has spent time identifying and assessing business unit and Group objectives, key issues, opportunities and controls. This assessment encompassed operational, compliance, financial and business risks, and is updated on an ongoing basis. A risk assessment has similarly been prepared for the Group covering central functions and strategic risks;
- a detailed system of budgeting, reporting and forecasting for the Group's operations is in place; this is monitored, both locally and centrally, through a review of monthly management information;
- the Group Internal Auditor's audit plan, which includes a cyclical programme of visits to all Group operations, is reviewed, updated and approved by the Committee. The conclusions from the Group Internal Auditor's work are reported to the Committee, the Group Chief Executive and the Group Finance Director;
- the Group Internal Auditor also co-ordinates Financial Integrity Declarations and self-assessment questionnaires which are applied on a cyclical basis and subjected to review. The results of these reviews and internal audit visits are reported to the Audit Committee, along with those from the external auditors; and
- there is in place a formal annual risk management sign-off process for senior management in each of the business units. This is operated in order to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

The whole risk management process is subject to review twice a year by the Audit Committee, and strengthened as appropriate. Steps are taken to embed internal controls and risk management further into the Group's operations, and to deal with areas for improvement which come to the management's and the Board's attention. The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness. Such a system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable, but not absolute, assurance against misstatement or loss.

OVERVIEW

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

APPROVAL

This Report was approved by the Audit Committee and signed on its behalf by:

DAVID BEST
Chairman of the Audit Committee
27 February 2009