



Hydrodec Group plc

Audit Committee – Terms of Reference

1. The objectives of the Audit Committee are:
 - 1.1 to increase shareholder confidence and to ensure the credibility and objectivity of published financial information;
 - 1.2 to assist the Board in meeting its financial reporting responsibilities;
 - 1.3 to assist the Board in ensuring the effectiveness of the Company's internal accounting and financial controls;
 - 1.4 to strengthen the independent position of the Company's external auditors by providing channels of communication between them and the non-executive directors;
 - 1.5 to review the performance of the Company's external auditing functions.
2. The Audit Committee is a sub-committee of the Board appointed in accordance with the Company's Articles of Association, whose purpose is to assist the board in the effective discharge of its responsibilities for corporate governance, financial reporting, corporate control and risk management. The Audit Committee has no executive powers with regard to its recommendations and does not relieve the directors of the Company of their responsibilities for these matters.
3. The Audit Committee comprises not less than three non-executive directors of the Company, to be selected by the Board on the recommendation of the Nomination Committee in consultation with the chairman of the Audit Committee, who are all independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, the Audit Committee member's judgement. As determined by the Nomination Committee, the members of the Audit Committee will be financially literate with at least one having recent accounting or related financial management expertise. 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.
4. The Board shall regularly review the membership of the Audit Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals as regards membership of the Audit Committee.



5. The Board shall appoint the chairman of the Audit Committee who must be an independent non-executive director. In the absence of the chairman of the Audit Committee, the remaining members shall elect one of their number to chair the meeting.
6. If any member of the Audit Committee is unable to act for any reason, the chairman of the Audit Committee may appoint any other independent non executive director of the Company to act as his alternate having due regard to the requirements set out in paragraph (2) and (3) of these terms of reference.
7. The Company Secretary is the secretary of the Audit Committee.
8. The Committee will have two regularly scheduled meetings each year and will meet at such other times as it deems necessary to fulfil its responsibilities.
9. The quorum for the transaction of business shall be a majority of Committee members.
10. Company management and the independent accounting firm appointed to audit the financial statements of the Company (the "**External Auditors**") shall attend each meeting or portions thereof as required by the Audit Committee. At least once a year, the Audit Committee must meet the Company's External Auditors without any executive directors present.

Role

11. The Audit Committee's role is to:
 - 11.1 Monitor and review:
 - the integrity of the Company's financial statements and formal announcements;
 - the Company's compliance with legal and regulatory requirements;
 - the accountants' qualifications and independence
 - the performance of the Company's internal accounting function and of the accountants;
 - the adequacy of the Company's financial disclosure; and
 - the effectiveness of the Company's risk management and internal control systems;
 - 11.2 propose to the Board the appointment, compensation and retention of the auditors and to oversee their work, review and monitor the auditor's independence and objectivity and appoint, compensate, retain and oversee the audit services work of other independent accountants; and



11.3 assist the Board's oversight of:

- the integrity of the Company's financial statements;
- the Company's compliance with legal and regulatory requirements;
- the accountants' qualifications and independence
- the performance of the Company's internal audit function, if any, and of the accountants;
- the adequacy of the Company's financial disclosure; and
- the effectiveness of the Company's risk management and internal control systems.

Responsibilities

12. The Audit Committee has no executive powers with regard to its recommendations and does not relieve the directors of their responsibilities for these matters. The Audit Committee's role is one of oversight and the Company's management is responsible for preparing the Company's financial statements and the accountants are responsible for auditing those financial statements. The Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the External Auditors' work. The Committee, whilst reviewing the Company's policies and practices with respect to risk assessment and management, is not responsible for assessing or determining the appropriate level of the Company's exposure to risk.
13. The following are the principal duties of the Committee in carrying out its oversight function:
- 13.1 provide an open avenue of communications between the internal auditors, if any, the External Auditors, management and the Board, including periodic private sessions with the internal auditors, if any, and the External Auditors. The private sessions with the External Auditors shall address, among other things, any audit problems or difficulties encountered in the course of the audit and Company management's response, any restrictions on the scope of the External Auditor's activities or on access to requested information, and any significant disagreements with management. The Audit Committee will resolve any disagreements between management and the External Auditors regarding financial reporting;
- 13.2 receive and review reports from Company management relating to legal and regulatory matters that may have a material impact on the Company's financial statements and Company compliance policies;



- 13.3 receive and review reports from internal auditors, if any, relating to major findings and recommendations for internal controls. Consult with and review reports from internal auditors, if any, relating to on-going monitoring programs and compliance with policies of the Company;
- 13.4 review and discuss the Company's annual audited financial statements with Company management and the External Auditors, reviewing, among other things:
 - 13.4.1 major issues regarding accounting principles followed by the Company and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any audit steps adopted in light of material control deficiencies;
 - 13.4.2 analyses prepared by management and/or the External Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative IFRS methods on the financial statements; and
 - 13.4.3 the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, on the financial statements;
- 13.5 where, following its review, the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board;
- 13.6 review with Company management, the internal auditors, if any, and the External Auditor, the Company's annual assessment of the effectiveness of its internal control over financial reporting and the accountants' report about the Company's assessment and the effectiveness of the Company's internal control over financial reporting. Among other things, the Audit Committee shall have access to all reports of the auditor and information relating to Company policy and management responsibilities with regard to risk management and internal control, the adequacy of disclosure controls and procedures (including related certification and attestation processes), the avoidance of illegal payments and improper accounting practices, and identified weaknesses in the effectiveness of risk and control management;
- 13.7 review any representation letter(s) requested by the External Auditor before they are signed by management;
- 13.8 discuss with Company management the types of information to be disclosed and presentation made in the Company's earnings press releases, if any, as well as financial information and earnings guidance, if any, provided to analysts and rating agencies;



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- 13.9 discuss with Company management the Company's policies with respect to risk assessment and risk management;
- 13.10 where an internal audit function exists:
- 13.10.1 approve the internal audit program in terms of scope of audits conducted or scheduled to be conducted and review with the internal auditors, if any, and the External Auditors the coordination of their respective roles;
 - 13.10.2 Approve the appointment and removal of the head of the internal audit function, review and monitor management's responsiveness to the findings and recommendations of the internal auditor, meet the head of the internal audit function at least once a year (without management being present) and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and its subsidiary undertakings, from time to time;
 - 13.10.3 review the scope and plan for the Company's testing and assessment of internal control over financial reporting with management and the accountants;
- 13.11 consider and make recommendations to the Board in relation to the appointment of the External Auditors and any question of resignation or dismissal of the External Auditors;
- 13.12 recommend annually the reappointment of the External Auditors to the Board and to approve the External Auditors' remuneration and terms of engagement, based upon an annual performance evaluation of the accountants. This evaluation will include obtaining and reviewing a written report by the accountants that addresses:
- 13.12.1 the External Auditors' quality-control procedures;
 - 13.12.2 any material issues raised by the most recent internal quality-control review or peer review of the accountants, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the accountants, and any steps taken to deal with any such issues; and
 - 13.12.3 the External Auditors' independence with respect to the Company, which will delineate all relationships between the accountants and the Company;
- 13.13 discuss with the External Auditors whether any disclosed relationship or service could impact the External Auditors' objectivity and independence. The Audit Committee will recommend to the Board that the Board take appropriate action in response to the External Auditors' report to ensure the independence of the accountants.



- 13.14 To monitor and review the External Auditor's independence and objectivity, and the effectiveness of the audit process taking into account the relevant UK professional and regulatory requirements.
14. The Audit Committee shall develop and implement a policy on the engagement of the External Auditors to supply non-audit services and to keep under review and report the Board on the nature and extent of non-audit services supplied by the External Auditors. The Committee will also appoint, agree compensation, retain and oversee the audit services work of other independent accountants.
15. The Audit Committee shall receive a report from the External Auditors prior to the finalisation of the annual audited financial statements of:
 - 15.1 all critical accounting policies and practices to be used;
 - 15.2 all alternative treatments within generally acceptable accounting principles for policies and practices related to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the accountant; and
 - 15.3 other material written communications between the accountants and Company management, such as any management letter or schedule of unadjusted differences.
16. Within the scope of its assigned responsibilities, seek any information it requires from employees, company officers and external parties; and investigate or commission the investigation of issues or concerns and monitor arrangements for appropriate follow-up action as it may deem appropriate. As appropriate, retain and obtain the advice and assistance of outside legal, accounting and other advisors, in addition to obtaining advice from the Company's internal counsel or regular outside counsel. The Company will provide funding as determined by the Audit Committee to compensate legal, accounting and other advisors retained by the Audit Committee.
17. Establish and review procedures including, but not limited to, procedures for:
 - 17.1 the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - 17.2 the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
18. Set hiring policies for employees or former employees of the accountants.



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19. Participate in an annual performance evaluation of the Audit Committee (including an assessment of the adequacy of the Committee and discuss the results with the Board).
 20. The Audit Committee's chairman should attend the Company's annual general meeting to be available to answer shareholders' questions.
 21. The secretary must send the minutes of meetings of the Audit Committee to all Audit Committee members.
 22. To keep under review its own performance, constitution and terms of reference, and to make the terms of reference available to the public.