

ARMOUR GROUP PLC

Terms of reference

for the

Audit Committee

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Audit Committee (“Committee”)

These terms of reference were adopted by resolution of the Board of Armour Group plc (“Board”) passed on 25 June 2007 and supersede any terms of reference previously adopted.

1. Purpose of the Committee

- 1.1 The purpose of the Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the Combined Code, and to maintain an appropriate relationship with the Company’s external auditors.

2. Committee constitution and membership

- 2.1 The Audit Committee has been established by resolution of the Board.
- 2.2 The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than two members. At least one member of the Committee should have significant, recent and relevant financial experience.
- 2.3 The chairman of the Committee shall be appointed by the Board. In the absence of the chairman of the Committee, the members present shall select one of their number present to chair the meeting.
- 2.4 The Company Secretary or such other person as shall be appointed by the Chairman shall be the secretary of the Committee.

3. Committee meetings

- 3.1 The Committee will meet not less than twice a year and meetings shall be convened by the secretary of the Committee at the request of the chairman of the Committee.
- 3.2 Meetings of the Committee will normally be arranged to tie in with the publication of the Company’s financial statements.
- 3.3 In addition to the routine meetings of the Committee, either the chairman of the Committee, the external auditors (through the chairman of the Committee) or the Group Finance Director may at any time request the secretary to arrange a meeting if they consider that one is necessary.
- 3.4 The external auditors and the Group Finance Director may have access to the chairman or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.
- 3.5 The quorum necessary for the transaction of the business of the Committee shall be two. A duly convened meeting of the Committee at which a quorum is

present shall be competent to exercise all of any of the authorities, powers and discretions vested in or exercisable by the Committee.

- 3.6 Decisions of the Committee will be made by majority vote. In the event of any equality of votes, the chairman of the Committee will have a second or casting vote.

4. Committee Authority

- 4.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.
- 4.2 The Committee is authorised to seek any information it requires from any employees or officers and to call any member of staff to attend a meeting of the Committee as and when required.
- 4.3 The Committee is authorised by the Board, at the Company's expense, to obtain expert advice from the Company's auditors or other professional advisers and to secure the attendance of external independent professional advisers at its meetings if it considers this necessary.

5. Attendance at meetings

- 5.1 At least once a year the Committee should meet with the external auditors without any executive member of the Board in attendance. However, this may be waived if neither the external auditors nor any member of the Committee have any matters to discuss.
- 5.2 Other than as provided in 5.1 above, the Group Finance Director and the external auditors of the Company shall be entitled to and will normally be expected to attend and if requested by the Committee members shall attend meetings of the Committee.

6. Duties of the Committee

- 6.1 The duties of the Committee are:

Financial Statements

- 6.2 To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them.
- 6.3 To keep under review the consistency of accounting policies, both on a year to year basis and across the Group.
- 6.4 To review and challenge where necessary the Company's financial statements (including the actions and judgements of management in relation to them), before submission to the Board, taking into account, in particular:
 - 6.4.1 Critical accounting policies and practices, and any changes in them.
 - 6.4.2 Decisions requiring a major element of judgement.

- 6.4.3 The extent to which the financial statements are affected by any unusual transactions or circumstances.
- 6.4.4 The clarity of disclosures.
- 6.4.5 Significant adjustments resulting from the audit.
- 6.4.6 The going concern assumption.
- 6.4.7 Compliance with accounting standards.
- 6.4.8 Compliance with stock exchange and other regulatory and legal requirements.

Internal Control

- 6.5 To keep under review the Company's system of internal control, to review any statement made regarding internal control in the Company's Annual report and to recommend to the Board such changes to the system as the Committee believes necessary.

Internal Audit

- 6.6 To review at least annually the need for an internal audit function.

External Audit

- 6.7 To make recommendations to the Board in relation to the appointment of the external auditors and to approve terms of engagement.
- 6.8 To oversee the selection process, consider and make recommendations to the Board in relation to the appointment and re-appointment of the Company's external auditors, and to ensure that the key partners within the appointed firm are rotated from time to time.
- 6.9 To meet with the external auditors at least twice a year and keep the relationship under review including (but not limited to):
 - 6.9.1 The independence, objectivity and effectiveness of the external auditors.
 - 6.9.2 The consideration of audit fees which should be paid, as well as any other fees which are payable to auditors in respect of non-audit activities.
 - 6.9.3 Discussion with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards.
- 6.10 To monitor the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the relevant external audit firm, taking into account types of work:
 - 6.10.1 From which the external auditors are excluded.

- 6.10.2 For which the external auditors can be engaged without referral to the Committee.
- 6.10.3 For which a case by case decision from the Committee is necessary.
- 6.11 To consider the audit plan including the nature and scope of the audit, quality control procedures, steps taken by the auditors in response to regulatory and other requirements and ensure co-ordination where more than one external auditor is involved.
- 6.12 To review and consider the results of the audit, any major external auditor recommendations (auditors managements letters) and management's responses.

Interaction with the Board

- 6.13 The Committee or its chairman shall meet formally with the Board of the Company at least once each year to discuss such matters as the Annual Report and the relationship with the external auditors.
- 6.14 The Committee shall make whatever recommendations to the Board that it deems appropriate in the context of the scope of its responsibilities. Each year, the Committee shall review any relevant reports (relating to the Committee's activities) and make recommendations to the Board as to their inclusion in the Company's annual report and accounts.

Other matters

- 6.15 To give due consideration to the requirements of the AIM Rules.
- 6.16 To consider arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting and/or other matters. These arrangements should allow for proportionate and independent investigation of such matters and for appropriate follow-up action.
- 6.17 To oversee any investigation of activities which are within its terms of reference, and to act as a court of last resort.
- 6.18 To review the Committee's own performance, constitution and terms of reference, and to make recommendations to the Board as necessary, to ensure that it is operating at maximum effectiveness.

7. Records and Annual General Meeting

- 7.1 The secretary shall keep minutes of all resolutions and proceedings of the Committee and shall circulate these minutes to all members of the Committee and to the Board.
- 7.2 The chairman of the Committee should be present at the Company's annual general meeting to respond to questions on matters within the responsibility of the Committee.