

REPORT OF THE AUDIT COMMITTEE

INTRODUCTION

This report to Shareholders has been prepared by the Audit Committee ("the Committee") on behalf of the Board in accordance with the Financial Reporting Council's "Guidance on Audit Committees" issued in October 2008 and the requirements of paragraph C.3.3 of the Combined Code on Corporate Governance. The report gives details of the work of the Committee in discharging its responsibilities.

MEMBERSHIP

Throughout 2009, the Committee comprised the independent Non-Executive Directors of the Company. Mr. P. H. Blackburn and Mr. M. J. C. Borlenghi were members until their retirements on 30 September 2009. Mr. C. V. Geoghegan and Mrs. V. Murray joined the Committee on 1 July 2009 and Mr. J. C. Nicholls on 6 November 2009. Mr. J. C. Nicholls succeeded Mr. D. A. Haxby as Chairman of the Committee on 12 November 2009. Mr. D. A. Haxby will remain a member of the Committee until his retirement from the Board in May 2010. The Board considers that each member of the Committee is independent within the definition set out in the Code.

The Chairman of the Committee, from 1 January 2009 to 11 November 2009, was Mr. D. A. Haxby, who is a Chartered Accountant (FCA) and is considered by the Board to have significant recent and relevant financial experience. He was a Partner in Arthur Andersen for 18 years (1977–1995) holding Senior Management positions in the UK Practice from 1985 to 1995. Since then he has served as Audit Committee Chairman of a number of UK listed companies. Mr. J. C. Nicholls (ACA) became Chairman on 12 November 2009. He is a Chartered Accountant and was most recently Group Finance Director of Old Mutual plc and prior to that, Group Finance Director of Hanson plc. He is Audit Committee Chairman for Great Portland Estates plc and on the Audit Committee of DS Smith plc. The other members of the Committee have a wide range of business experience, which is evidenced by their biographical summaries on page 44. The Board makes appointments to the Committee. The Company Secretary acts as Secretary to the Committee.

Members of the Committee undertake ongoing training as required.

TERMS OF REFERENCE

The Committee operates under Terms of Reference which can be found on the Company's website and which are available on application to the Company Secretary at the registered office. They are reviewed annually by the Committee and changes are recommended to the Board for approval.

The main duties of the Committee set out in its Terms of Reference are:

- monitoring the integrity of the Company's Accounts including its Annual Report and Accounts and Interim Report;
- reviewing the consistency of accounting policies, including any changes;
- reviewing the effectiveness of the Company's internal control and risk management systems;
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitoring and reviewing the effectiveness of the Company's outsourced internal audit function;
- reviewing the annual audit plan and receiving the Auditors' Reports and the Company's response;
- considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external Auditors;
- overseeing the relationship with the external Auditors, including (but not limited to) approving their remuneration, 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; and
- reporting to the Board and identifying any matters on which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee has the power to engage outside advisers if it considers it to be necessary.

The Committee reviews its own performance annually and considers where improvements can be made.

The Chairman of the Committee attends the Annual General Meeting to respond to any Shareholder questions that might be raised on the Committee's activities.

MEETINGS

The Committee meets regularly throughout the year with four planned meetings, and its agenda is linked to events in the Company's financial calendar. The agenda is mostly cyclical although each member of the Committee may request reports on matters of interest in addition to the regular items. In 2009 it met five times. Attendance by individual members of the Committee is disclosed in the table on page 52. The Finance Director attended all five of the meetings as did the external Auditors. The external Auditors have direct access to the Committee Chairman. The Chairman of the Board and the other Executive Directors attend the meetings of the Committee at the invitation of the Committee Chairman. The external Auditors had confidential discussions with members of the Committee without the Chairman of the Board and the Executive Directors being present on two occasions in 2009 and in March 2010 before the signing off of the 2009 Annual Report and Accounts. Ernst & Young LLP, who provide an outsourced internal audit function for the Group, are invited to meetings to present their reports and attended on three occasions in 2009. The Committee also meets with Ernst & Young LLP without the Executive Directors present and did so on two occasions in 2009.

REPORT OF THE AUDIT COMMITTEE CONTINUED

WORK OF THE COMMITTEE

The Committee discharged its obligations in respect of 2009 as follows:

- Annual Report and Accounts and Interim Report – at its meetings in August 2009 and March 2010, the Committee reviewed the financial reporting issues and judgements contained in the Company's Interim Announcement and its Annual Report and Accounts respectively. At the March 2010 meeting the Committee received a report from the external Auditors setting out the accounting or judgemental issues which required its attention;
- accounting policies and standards – at its August 2009 meeting the Committee reviewed the application of any new accounting policies or standards that would be applicable to the Group's 2009 Annual Report and Accounts, in particular IFRS 8 "Operating Segments". The Committee is updated regularly on actual and pending changes to accounting standards;
- internal controls and risk management – in November 2009 and March 2010, the Committee considered detailed reports from the Group Finance Director on the operation of, and issues arising from, the Group's internal control procedures, together with observations from the external Auditors. It also monitored the effectiveness of the Group's risk management process, which considers the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks;
- in August 2009 the Committee reviewed its Terms of Reference and Non-audit Services Policy. Following the appointment of PricewaterhouseCoopers as the Group's tax advisers in August 2006 and other preferred suppliers having been identified for due diligence services, Deloitte LLP's role is now solely that of Group Auditor for the whole of the SIG Group together with any "Auditor permitted" services which the Group considers appropriate;
- external Auditors' work and relationship – the Committee reviewed the external Auditors' proposed audit plan in November 2009; considered its pre year-end issues report in December 2009; reviewed the fees paid for audit and for non-audit services in March 2010; and assessed the external Auditors' independence and objectivity in November 2009 and March 2010. The risk of Deloitte LLP leaving the market is considered remote since they are one of the top four accounting firms in the UK;
- internal audit function – in April 2006 Ernst & Young LLP were appointed to provide an outsourced internal audit function for the Group. During the year Ernst & Young undertook work on the Group's CSA procedures including the independent validation of CSA reporting at a number of businesses in the UK and Mainland Europe and a number of special projects. The Committee received reports from Ernst & Young at its meetings in March 2009, August 2009, November 2009, December 2009 and March 2010. In December 2009 the Committee agreed the scope of work of the internal audit function for 2010; and
- "Whistleblowing" Policy – in August 2009 the Committee reviewed the Whistleblowing Policy under which employees may in confidence notify the Company of any concerns, inter alia matters involving financial reporting. It also reviewed the procedures for investigating and resolving any such concerns. A copy of the Whistleblowing Policy is available on the Company's website. The Committee also reviewed the arrangements for the Group's confidential hotline which is available to all of the Group's employees and provides a facility for employees to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. A full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant.

INDEPENDENCE OF AUDITORS

The Board is aware of the need to maintain an appropriate degree of independence and objectivity on the part of the Group external Auditors. Both the Audit Committee and the external Auditors, Deloitte LLP, have safeguards in place to avoid the Auditors' independence and objectivity being compromised.

The Group policy with regard to the provision of audit and non-audit services by the external Auditors, which was operated during 2009, is based on the principles that they should only undertake non-audit services where they are the most appropriate and cost-effective provider of the service, and where the provision of non-audit services does not impair, or is not perceived to impair, the external Auditors' independence and objectivity. It categorises such services between:

- Auditor permitted services – those services which it is acceptable for the Auditors to provide and the provision of which can be engaged without referral to the Committee (e.g. regulatory and other specialist financial reporting; and accounting advisory services);
- Auditor excluded services – those engagements that the Committee and the Board do not consider appropriate for the Auditors to undertake (e.g. selection, design or implementation of major financial systems, provision of internal audit services or risk management assessment and monitoring services); and
- Auditor authorised services – those services for which the specific approval of the Committee is required before the Auditors are permitted to provide the service (e.g. complex tax planning and structure advice, corporate finance and M&A activity).

The policy defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any "Auditor authorised services". The Committee regularly reviews an analysis of all services provided by the external Auditors. The policy is reviewed annually by the Committee and is approved by the Board.

Details of the amounts paid to the external Auditors for audit and non-audit services in 2009 are set out in Note 4 to the Accounts on page 80.

The external Auditors report to the Committee each year on the actions they have taken to comply with professional and regulatory requirements and best practice designed to ensure their independence, including the rotation of key members of the external audit team. Deloitte LLP have formally confirmed their independence to the Board in respect of the period covered by these financial statements. Having reviewed and expressed satisfaction with the level of fees, independence, objectivity, expertise, resources and general effectiveness of Deloitte LLP, the Committee recommends (and the Board agrees) that a resolution for the re-appointment of Deloitte LLP as Auditors of the Company will be proposed at the forthcoming Annual General Meeting.

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 its external Auditors.

On behalf of the Board



JONATHAN NICHOLLS
CHAIRMAN OF THE AUDIT COMMITTEE
17 MARCH 2010