



Johnson Matthey

Audit Committee

Terms of Reference

1. Membership

- 1.1 The Audit Committee (the “Committee”) shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Committee Chairman. The Committee shall comprise at least three members all of whom shall be independent non-executive directors and at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not be a member of the Committee.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, the Chief Executive, the Group Finance Director, the Head of Internal Audit and Risk, the external auditor and representatives from the finance and other functions may be invited to attend for all or part of any meeting as and when appropriate and necessary.
- 1.3 The Committee Chairman shall be appointed by the Board. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members of the Committee present shall elect one of themselves to chair the meeting.

2. Secretary

- 2.1 The Company Secretary or his or her nominee shall act as secretary of the Committee (“Secretary”).

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be two members including the Committee Chairman.

4. Frequency of Meetings

- 4.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Committee Chairman shall maintain a dialogue with key individuals involved in the Company’s governance, including the Chairman of the Board, the Chief Executive, the Group Finance Director, the external audit lead partner and the Head of Internal Audit and Risk.

5. Notice of Meetings

- 5.1 Meetings of the Committee shall be called by the Secretary at the request of any of its members or at the request of the external audit lead partner or Head of Internal Audit and Risk if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

6. Minutes of Meetings

- 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 Draft minutes of Committee meetings shall be circulated to all members of the Committee. Draft minutes shall also be circulated to all other members of the Board unless in the opinion of the Committee Chairman or Secretary it would be inappropriate to do so.

7. Annual General Meeting

- 7.1 The Committee Chairman shall attend the Company's Annual General Meeting to answer shareholder questions on the Committee's activities.

8. Responsibilities

The Committee shall carry out the following responsibilities for the Company and the Group, as appropriate.

8.1 Financial Reporting

The Committee shall:

- 8.1.1 monitor the integrity of the reported financial information, including the financial statements of the Company and Group, included in its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the external auditor; and
- 8.1.2 review and challenge where necessary:
- (i) the assumptions used in going concern assessments;
 - (ii) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company and Group;
 - (iii) the methods used to account for significant or unusual transactions where different approaches are possible;

- (iv) whether the Company and Group have followed appropriate accounting standards and that any estimates and judgments that are made are appropriate, taking into account the views of the external auditor;
- (v) the clarity of disclosure in the Company's and Group's financial reports and the context in which statements are made; and
- (vi) all related material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

8.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

8.2 Narrative Reporting

The Committee shall:

8.2.1 review and assess the process by which management gives assurance that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee shall confirm to the Board as to whether such process is satisfactory.

8.3 Internal Control and Risk Management Systems

The Committee shall:

8.3.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems including in respect of risks associated with metal holdings, credit, bribery and corruption, money laundering and fraud;

8.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management; and

8.3.3 review the Company's procedures for handling allegations from whistleblowers. The Committee shall ensure that these procedures allow proportionate and independent investigation of such matters and appropriate follow-up action.

8.4 Internal Audit

The Committee shall:

8.4.1 monitor and review the effectiveness of the Company's internal audit function;

8.4.2 approve the appointment and removal of the head of the internal audit function;

8.4.3 review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate

professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

- 8.4.4 ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee;
- 8.4.5 review and approve the annual internal audit plan;
- 8.4.6 review reports addressed to the Committee from the internal auditor;
- 8.4.7 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 8.4.8 meet the head of internal audit at least once a year, without management present, to discuss their remit and any issues arising from the internal audits carried out.

8.5 External Audit

The Committee shall:

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 8.5.2 taking into account the UK Corporate Governance Code (the "**Code**") and relevant legal and regulatory framework, consider the appropriate frequency and timing for putting the audit services contract out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the planning and selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 8.5.3 if an auditor resigns investigate the issues leading to this and decide whether any action is required;
- 8.5.4 oversee the relationship with the external auditor including (but not limited to):
 - (i) approving their fee for audit services, ensuring that such fee is appropriate to enable an effective and high quality audit to be conducted;
 - (ii) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
 - (iv) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner;

- (v) monitoring compliance with the Company's policy on the employment of former employees of the Company's auditor;
- (vi) assessing annually the expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (vii) developing and implementing a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any ethical guidance on this matter; and keeping this policy and any fees paid to the external auditor in respect of the supply of non-audit services under review;
- (viii) seeking to ensure co-ordination with the activities of the internal audit function;
- (ix) meeting regularly with the external auditor, including at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (x) reviewing and approving the annual external audit plan and ensuring that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- (xi) reviewing the findings of the audit with the external auditor. This shall include but not be limited to the following:
 - a discussion of any major issues which arose during the audit;
 - any key accounting and audit judgments;
 - levels of errors identified during the audit; and
 - the effectiveness of the audit process.

The Committee shall also:

- (xii) review any audit representation letter(s) as requested by the external auditor before they are signed on behalf of the Board; and
- (xiii) review the external auditor's findings and recommendations and management's response thereto.

9. Reporting Responsibilities

9.1 The Committee Chairman shall formally report to the Board on the proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities. This report shall include:

- 9.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
- 9.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and

9.1.3 any other issues on which the Board has requested the Committee's opinion.

9.2 The Committee shall make whatever recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The Committee shall produce a report to be included in the Company's annual report about its activities in accordance with the Code and applicable law.

10. Other Matters

The Committee shall:

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

10.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

10.3 give due consideration to applicable laws and regulations, the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules as appropriate;

10.4 work and liaise as necessary with all other Board committees; and

10.5 arrange for annual reviews of its own performance and of its 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.

11. Authority

The Committee is authorised:

11.1 to seek any information it requires from any officer or employee of the Group in order to perform its duties;

11.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and

11.3 to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

Approved by the Board on 4 June 2014