

# Audit Committee Report

## *Role of the Audit Committee*

The Audit Committee is a sub-committee of the board whose responsibilities include:

- > Reviewing the interim and full year accounts and results announcements of the company and any other formal announcements relating to the company's financial performance and recommending them to the board for approval;
- > Reviewing the group's systems for internal financial control and risk management;
- > Monitoring and reviewing the effectiveness of the company's internal audit function and considering regular reports from Internal Audit on internal financial controls and risk management;
- > Considering the appointment of the external auditors; overseeing the process for their selection; and making recommendations to the board in relation to their appointment (to be put to shareholders for approval at a general meeting);
- > Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, their remuneration, and considering their reports on the company's accounts and systems of internal financial control and risk management.

The full terms of reference of the Audit Committee are provided on our website at [www.matthey.com](http://www.matthey.com).

## *Composition of the Audit Committee*

The Audit Committee comprises all the independent non-executive directors. Biographical details of the independent directors are set out on pages 12 and 13. Their remuneration is set out on page 34. The Chairman of the Audit Committee is Mr A M Thomson who took over from Mr H R Jenkins following his retirement from the board at the Annual General Meeting on 16th July 2003. The group Chairman, Mr H M P Miles, stepped down as a member of the Audit Committee on 25th November 2003 and now attends by invitation. The Chief Executive, Group Finance Director, Head of Internal Audit and external auditors (KPMG Audit Plc) attend Audit Committee meetings by invitation. The Committee also meets separately with the Head of Internal Audit and with the external auditors without management being present. The Company Secretary, Mr S Farrant, is secretary to the Audit Committee.

## *Main Activities of the Audit Committee*

The Audit Committee met four times during the financial year ended 31st March 2004. At its meeting on 29th May 2003 the Committee reviewed the company's preliminary announcement of the results for the financial year ended 31st March 2003, and the draft report and accounts for that year. The Committee received reports from the internal auditors on control matters and the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgment, and their comments on risk management and control matters. The Committee also reviewed the group's corporate social responsibility (CSR) review which is available on our website at [www.matthey.com](http://www.matthey.com).

The Audit Committee met on 31st July 2003 to receive a presentation by the external auditors setting out their audit approach and procedures, including matters relating to scope, auditor independence and audit fees. Following this presentation, and further discussion and review, the Committee recommended to the board that KPMG Audit Plc should be re-appointed as the company's external auditors.

At its meeting on 25th November 2003 the Audit Committee reviewed the company's interim results, the half year report and the external auditors' review.

At its meeting on 25th February 2004 the Audit Committee reviewed management's and internal audit's reports on the effectiveness of the company's systems for internal financial control and risk management. In addition the Committee reviewed and approved revised policies on whistleblowing and ethics.

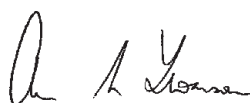
## *Independence of External Auditors*

Both the board and the external auditors have for many years had safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

- > Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. It includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.
- > Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender.
- > General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

## *Internal Audit*

During the year the Audit Committee reviewed the performance of the internal audit function, the findings of the audits completed during the year, the department's resource requirements and also approved the internal audit plan for the year ending 31st March 2005.



A M Thomson  
Chairman of the Audit Committee