

Terms of Reference Audit Committee

1. Scope

The committee has the primary purpose of assisting the Board in overseeing the integrity of the KCA Deutag Holding's I Limited's (the Company's) financial statements, and the Company's compliance with legal and regulatory requirements as described below.

2. Membership

2.1. Members of the committee shall be appointed by a majority of the Board, in consultation with the chairman of the audit committee.

2.2. The committee shall be made up of at least 3 members.

2.3. Members of the committee shall not be employees of the KCA Deutag group of companies and at least one member shall have recent and relevant financial experience.

2.4. The Chairman of the Board can be a member of, but not chair, the committee, provided he or she was considered independent on appointment.

2.5. Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, finance director, other directors, the heads of risk, compliance and internal audit, representatives from the finance function and representatives of the shareholders may be invited to attend all or part of any meeting as and when appropriate.

2.6. The external auditors will be invited to attend meetings of the committee on a at the discretion of the chairman.

2.7. A majority of the Board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

The Company Secretary or their nominee shall act as the secretary of the committee.

4. Quorum

The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

5. Frequency of meetings

The committee shall meet twice a year and otherwise as directed by the chairman.

6. Notice of meetings

6.1. Meetings of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

6.2. 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, any other person required to attend and all other non-executive directors, no later than 5 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.

7. Minutes of meetings

7.1. The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.

7.2. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3. Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

8. Duties

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

Financial reporting

- 8.1. The committee shall monitor the integrity of the financial statements of the Company and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain. The committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in other public documents.
- 8.2. The committee shall review and challenge where necessary
 - 8.2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group
 - 8.2.2. the methods used to account for significant or unusual material transactions where different approaches are possible
 - 8.2.3. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor
 - 8.2.4. the clarity of disclosure in the Company's financial reports and the context in which statements are made; and all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (if relevant);

Internal controls and risk management systems

The committee shall

- 8.3. Monitor the integrity of the Company's internal controls
- 8.4. keep under review the effectiveness of the Company's internal controls and risk management systems; and
- 8.5. review and approve the statements to be included in the annual report concerning internal controls and risk management
- 8.6. consider the findings of relevant internal investigations and the adequacy of management response there to.

Whistleblowing and fraud

The committee shall

- 8.7. review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- 8.8. review the Company's procedures for detecting fraud

Internal audit

The committee shall

- 8.9. monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system
- 8.10. approve the appointment and removal of the head of the internal audit function
- 8.11. consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate standing and is free from management or other restrictions
- 8.12. review and endorse the annual internal audit plan
- 8.13. review promptly all relevant reports on the Company from the internal auditors
- 8.14. review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 8.15. meet the head of internal audit at least twice a year, without management being present, to discuss their remit, action plans agreed with management as a result of the internal audits carried out and any significant issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the committee

External Audit

The committee shall

- 8.16. consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required
- 8.17. oversee the relationship with the external auditor
- 8.18. approve auditors remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted
- 8.19. approve auditors terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
- 8.20. approve the instruction of any non audit work where such work on its own, or cumulatively with non audit work already carried out in the financial year would result in a fee of over \$250,000
- 8.21. assess annually auditor independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services

- 8.22. satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business)
- 8.23. monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements
- 8.24. assess annually the auditors' qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures
- 8.25. seek to ensure co-ordination of activities between external auditors and the internal audit function
- 8.26. consider the risk of the withdrawal of the Company's present auditor from the market
- 8.27. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit
- 8.28. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
- 8.29. review the findings of the audit with the external auditor. This shall include but not be limited to, the following
 - 8.29.1. a discussion of any major issues which arose during the audit
 - 8.29.2. any accounting and audit judgements
 - 8.29.3. levels of errors identified during the audit

The committee shall also review the effectiveness of the audit and

- 8.30. review any representation letter(s) requested by the external auditor before they are signed by management
- 8.31. review the management letter and management's response to the auditor's findings and recommendations
- 8.32. develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter

Reporting responsibilities

- 8.33. The committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.34. The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other matters

The committee shall

- 8.35. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
- 8.36. 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
- 8.37. give due consideration to laws and regulations as they apply to financial reporting and audit services.
- 8.38. be responsible for co-ordination of the internal and external auditors
- 8.39. oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort
- 8.40. at least once a year, review its own performance, 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

9. Authority

The committee is authorised

- 9.1. to seek any information it requires from any employee of the Company in order to perform its duties
- 9.2. to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference
- 9.3. to call any employee to be questioned at a meeting of the committee as and when required