

Audit Committee Terms of Reference

1. Scope

- 1.1. The committee (the “Committee”) is a sub committee of and is responsible to the board of directors of the Company (the “Main Board”) assisting the Main Board in overseeing the integrity of financial reporting and internal controls of KCA Deutag International Limited (the “Company”) and its subsidiaries (the “Group”); and
- 1.2. The focus of the Committee is to provide assurance to the Main Board over the Group’s financial statements, auditing, overseeing the effectiveness of the systems of internal controls and risk management and compliance with legal and regulatory requirements as described below.

2. Membership

- 2.1. The chair of the Committee (“Committee Chair”) and members of the Committee (“Committee Members”) shall be appointed by the Main Board in consultation with the Committee Chair;
- 2.2. The Committee shall be made up of at least three independent Non Executive members of the Main Board one of whom will be appointed Committee Chair and none of whom shall be employed by the KCA Deutag group (other than in respect of their services to the Main Board and its committees);
- 2.3. The Main Board Chair will be a Committee Member but shall not be Committee Chair;
- 2.4. In the absence of the Committee Chair and/or an appointed deputy, the remaining Committee Members present shall elect one of themselves (other than the Main Board Chair) to chair the Committee meeting;
- 2.5. only the appointed members of the Committee shall be entitled to conduct the business of the Committee however any other member of the Main Board shall be entitled to attend meetings of the Committee. Furthermore the Committee Chair shall have the right to invite any other person to attend or request that such person leaves all or part of any meeting as and when appropriate. Subject to the Committee Chair’s discretion with respect to a specific matter, the CFO, CEO and General Counsel will be standing non voting attendees; and
- 2.6. without prejudice to the provisions noted above, the external auditors and internal auditors will be invited to attend meetings of the Committee at the discretion of the Committee Chair.

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 four times a year and otherwise as directed by the Committee Chair.

6. Notice of meetings

6.1. meetings of the Committee, shall be called by the secretary of the Committee on behalf of the Committee Chair. Any party may ask the Committee Chair to consider calling a meeting of the Committee; and

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 invited to attend the relevant Committee meeting and all other members of the Main Board, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to the recipients of such notice at the same time or as soon as possible thereafter.

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; and

7.3. minutes of Committee meetings shall be circulated promptly to all Committee Members and, once agreed, to all members of the Main Board, unless a conflict of interest exists.

8. Duties

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

Financial reporting

The Committee shall:

8.1. 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 Group financial statements, significant financial returns to regulators and any financial information contained in other public documents;

8.2 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 / Group 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/Group'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);

8.2.5 any related party transaction that has occurred or is proposed in relation to the any member of the Group.

Internal Controls

The Committee shall

8.3. monitor the integrity of the Company/Group's internal controls that is, the systems established to identify, assess, manage and monitor relevant financial and non financial risks, and review reports from management on the effectiveness of internal controls.

8.4 primarily focus on the financial and related risks including but not limited to financial reporting, treasury, insurance, tax, IT and IT security, procurement and contract management and legal and compliance risks but not operational risks including those relating to health, safety and the environment, for which the Main Board shall retain the oversight role.

8.5. review and approve the statements to be included in the Group annual reports concerning internal controls;

8.6. consider the findings of relevant internal investigations and the adequacy of management response there to; and

8.7 review the Group's procedures for detecting fraud and managing all matters in relation to ethics & compliance.

Enterprise Risk Management

The Committee shall

8.8. assess the effectiveness of the Group's enterprise risk management framework and system to provide the Committee and Main Board with an accurate and comprehensive view of the risks faced by the organisation alongside mitigating controls in place;

8.9. review and approve the statements to be included in the annual report or board reporting concerning risk management; and

8.10 review the determination and reporting of the Group Risk Appetite statement to assist the Main Board.

Ethics & Compliance

The Committee shall

8.11. assess the effectiveness of the Group's ethics & compliance framework and system to confirm its operation is robust, mitigates all relevant risks and any output or reporting is accurate, complete and representative of the business;

8.12. review the Group'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;

8.13 review regular reports from the Ethics & Compliance Officer and keep under review the adequacy and effectiveness of the company's compliance function.

Internal audit

The Committee shall

8.14. monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall internal control environment and risk management system;

8.15 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;

8.16. approve the appointment and removal of the head of the internal audit function;

8.17. 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;

8.18. review and endorse the annual internal audit plan;

8.19 review and approve requests for material changes to IA annual plan in order to deal with unplanned events and allow emerging risks to be prioritised;

8.20. review promptly all relevant reports on the Company from the internal auditors;

8.21. review and monitor management's responsiveness to the findings and recommendations of the internal auditor;

8.22. 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 Main Board Chair and to the Committee;

8.23 ensure the internal audit function has adequate resources to allow it to conduct its activity effectively and support the Committee discharge its responsibilities to monitor the effectiveness of internal controls;

8.24 confirm the internal audit function maintains its independence from management and therefore retains the integrity of all the relevant work undertaken or reports produced; and

8.25 consider, at the appropriate frequency, whether an independent, third party review of processes is appropriate.

External Audit

The Committee shall

8.26. consider and make recommendations to the Main 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;

8.27. oversee the relationship with the external auditor;

8.28. approve the auditor's 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;

8.29. approve the auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.30. 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 \$100,000, or by its nature is deemed strategic;

8.31. 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;

8.32. 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);

8.33. 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;

8.34. 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;

8.35. seek to ensure co-ordination of activities between external auditors and the internal audit function;

8.36. consider the risk of the withdrawal of the Company's present auditor from the market;

8.37. 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 but shall provide full access to the auditor at other times;

8.38. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement; and

8.39. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

8.39.1. a discussion of any major issues which arose during the audit;

8.39.2. the auditor's explanation of how the risks to audit quality were addressed;

8.39.3. any accounting and audit judgements;

8.39.4. any internal controls findings; and

8.39.5. levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit and

8.40. review any representation letter(s) requested by the external auditor before they are signed by management;

8.41. 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

8.42. the Committee Chair shall report formally to the Main Board on how it has discharged its responsibilities including any significant issues it has considered and how these issues were addressed, and its assessments in relation the matters within its duties and responsibilities; and

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

Other matters

The Committee shall

8.44. have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;

8.45. 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;

8.46. give due consideration to laws and regulations as they apply to financial reporting and audit services;

- 8.47. be able to receive reports to the Committee on relevant topics by request and ask appropriate senior management to attend Committee to support presenting these matters. These matters will include a number of areas such as the following however it is at the discretion of the Committee to request other input from key areas of the business from time to time:
- 8.47.1. reports from the Group Treasurer on specific performance issues or exposures such as hedging;
 - 8.47.2. reports on the Group's tax position, policies and areas of potential tax exposure; and
 - 8.47.3. the annual insurance renewal process to confirm level of cover achieved across the business as well as the associated movement in premiums.
- 8.48. at least once a year, review its own effectiveness, performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Main Board for approval; and
- 8.49. The Committee should minute approval annually of the Committee terms of reference to confirm ongoing validity and appropriateness.

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; and
- 9.3. to call any employee to be questioned at a meeting of the Committee as and when required.