

Policy for the use of Auditors for Non-Audit Services

1. Introduction

The objective of non-audit services is to ensure that our auditor remains independent and objective. Non-audit services provided by auditors to Esken may fall into three categories:

1.1. Services required by legislation

- regulatory returns e.g. to the Financial Services Authority
- legal requirements to report on matters such as share issues for non-cash consideration, expenditure for grant application purposes, etc.
- contractual requirements, e.g. to report to lenders or vendors on net assets, covenant requirements, etc.

1.2. Services that it is most efficient for the auditors to provide because of their existing knowledge of the business, or because the information required is a by-product of the audit process. These include:

- services such as those listed in category 1.1 above that the auditors are not required by law to undertake, but where the information largely derives from the audited financial records
- interim reviews
- tax related services, where much of the information derives from the audited financial records
- 'short form' or other reports in acquisition or reorganisation situations where completion is necessary in a very short time

1.3. Services that could be provided by a number of firms

In this case, the fact that the firm is the auditor is incidental and it would generally only be chosen because, for example, it had won a tender process. Examples of such services include:

- management consultancy
- tax compliance and tax advice
- transactional services, e.g. capital raise work

2. The Audit Committee is responsible for considering the following prior to engaging the auditors for non-audit work

- The scope of the work to be undertaken.
- Whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service.
- Whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such non-audit services by the external auditor.
- The nature of the non-audit services, the related fee levels, and the fee levels individually and in aggregate relative to the audit fee.
- The criteria which govern the compensation of the individuals performing the audit.

3. Group Board Controls

The non-audit fees paid to the auditors are expected to be less than the Group audit fees.

The non-audit fees paid to the auditors are disclosed in the Annual Report along with a breakdown of their nature.

Work that is normally excluded from the auditors includes lead advisory mergers and acquisitions, transaction type work and also contingent fee work unless the fee is capped at less than 25% of the audit fee.

The auditors can be engaged without referral to the Audit Committee for tax compliance work, tax advisory work and other assurance work as long as the aggregate fees for non-audit services is no more than the Group audit fees or for any other work where the fee is less than 10% of the Group audit fee.

For other consultancy work, engagement should be decided on a case by case basis.

The auditor should not be engaged in work where they make management decisions or are involved in auditing their own work in a material area.

The objectivity and independence of the auditors is reviewed by the Audit Committee (which comprises at least 3 fully independent members) each year at the planning stage of the audit. This review includes consideration of all of the relationships between the company and the audit firm (including the provision of non-audit services) and whether, taken as a whole and having regard for the views of the external auditor, management and internal audit, those relationships appear to impair the auditor's judgement or independence.

The Audit Committee seeks reassurance that the auditors and their staff have no family, financial, employment, investment, or business relationship with the company (other than in the normal course of business). The Audit Committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff. The auditors are considered for rotation at least every five years and a tender process is conducted and at least once every 10 years the audit services contract is put out to tender.

Signed:



Lewis Girdwood, Chief Financial Officer