**CONSTITUTION AND PURPOSE**

1.1. The Audit Committee (the “Committee”) is established as a committee of the board of directors of the Company (the “Board”).

1.2. The purpose of the Committee is to assist the Board in fulfilling its responsibilities in respect of:

1.2.1. overseeing the Group’s financial reporting process, including the internal control structure and procedures for financial reporting and monitoring the integrity and appropriateness of the Group’s financial statements;

1.2.2. the manner in which the Group’s management ensures and monitors the adequacy of financial, operational and compliance internal controls and risk management processes designed to manage significant risk exposures;

1.2.3. the selection, compensation, independence and performance of the Group’s external auditors; and

1.2.4. the independence and performance of the Group’s internal auditors.

**2 MEMBERSHIP AND APPOINTMENT**

2.1. The Committee shall comprise not less than three independent non-executive Directors as determined by the Board (in accordance with the principles of the UK Corporate Governance Code (the “Governance Code”)), all of whom shall have appropriate knowledge and experience and at least one member shall have recent and relevant financial experience and a professional qualification from one of the professional accountancy bodies.

2.2. The members of the Committee shall be appointed by the Board, on the recommendation of the Nominations Committee, in consultation with the Committee chairman. The chairman of the Board shall not be a member of the Committee.

2.3. The Board shall appoint a chairman from among the members from time to time (the "Committee Chairman"). In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.

2.4. Only members of the Committee shall have the right to attend Committee meetings. However, other individuals, such as the Chairman of the Board, the Chief Executive, the Chief Financial Officer, other directors, the Group’s senior management, the internal auditor and representatives of the finance function may be invited by the Committee to attend for all or part of the meeting.

2.5. The external auditor will be invited to attend meetings of the Committee on a regular basis and the Committee shall meet with the external and internal auditors at least twice each year without management present to discuss matters relating to its remit and any issues arising from the audit.

2.6. Appointments to the Committee shall be for a period of up to three years, which may be extended by up to two further three-year periods, provided the director remains independent.

2.7. The Board shall regularly review the membership of the Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals.

2.8. The Company Secretary or his/her nominee shall be the Secretary to the Committee (the “Secretary”).

2.9. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary and members shall receive appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

**3 QUORUM**

3.1. A quorum of the Committee shall be three members.

**4 FREQUENCY OF MEETINGS**

4.1. The Committee shall meet not less than four times a year, at such times the Committee deems appropriate, and more frequently as circumstances require.

4.2. The external auditors or internal auditor may request a meeting if they consider that one is necessary.

**5 PROCEEDINGS AT MEETINGS**

5.1. Committee meetings shall be called by the Secretary at the request of any of its members or at the request of the external or internal auditors if they consider necessary.

5.2. Only members of the Committee shall have the right to vote at Committee Meetings.

5.3. Unless otherwise agreed, notice of each meeting, together with an agenda of items to be discussed and any supporting papers, shall be forwarded in advance and in a timely manner (as circumstances permit) to each member of the Committee and any other person required to attend.

5.4. Non-executive Directors who are not members of the Committee are entitled to receive supporting papers on request and may also attend meetings of the Committee.

5.5. The Secretary shall record the proceedings and decisions of the meetings of the Committee, including the names of those present and in attendance.

5.6. Draft minutes, once approved by the Committee members, shall be circulated to all members of the Board, unless it would be inappropriate to do so.

**6 ANNUAL GENERAL MEETING**

6.1. The Committee Chairman shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee’s activities.

**7 DUTIES**

The duties of the Committee shall be to:

**Financial Reporting**

7.1. monitor the integrity of the financial statements of the Company including its annual statements and any other formal announcements relating to the Company’s financial performance, and to review significant financial reporting issues and judgements which they contain;

7.2. review and challenge where necessary:

7.2.1. the clarity and completeness of disclosures in the Company's financial statements and whether such disclosures are properly set in context;

7.2.2. all the Group’s critical accounting policies and practices used, including their application and quality any changes to them and any significant estimates or judgements;

7.2.3. findings from the interim and final audits, significant audit and accounting judgements and compliance with accounting standards, alternative treatments of financial information within IFRS, as adopted in the EU, that have been discussed with management, the effect of the alternative treatments on the disclosed information and the auditors’ preferred treatment;

7.2.4. the methods used to account for significant or unusual transactions where different approaches are possible;

7.2.5. any disagreements between management and the external auditors regarding financial reporting for the purpose of issuing the audit report, whether or not any such issues have been resolved;

7.2.6. material written communications between management and the auditors relating to the audit, including representation and management letters;

7.2.7. any financial matters brought to the attention of the Company by the auditors;

7.2.8. any schedule of unadjusted differences arising from the audit, obtaining explanations as appropriate;

7.2.9. the going concern assumption;

7.2.10. compliance with stock exchange and other legal and regulatory disclosure requirements in respect of periodic financial statements;

7.2.11. all material information presented with the financial statements including the strategic report and corporate governance statements relating to internal controls, audit and risk management for the purpose of ensuring consistency with the financial statements;

7.3. where requested by the Board, the Committee should provide advice on whether 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;

7.4 report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;

**Internal Control and Risk Management**

7.5 review the adequacy and effectiveness of the Company's internal control and risk management frameworks. This review shall include:

7.5.1. reviewing and discussing with management, the external auditors and the internal auditors significant business risk exposures and the processes established to identify, monitor, control and report such exposures;

7.5.2. considering reports prepared by Internal Audit, the external auditors, the Chairmen of the Governance and Risk Management Committees, the Company Secretary and such others as the Committee may request, on the operation of internal control and risk management systems within the Group, any significant risk management failures and management’s responses;

7.5.3. evaluating on an annual basis the design and effectiveness of:

A the internal control structure and procedures of the Group and internal control and risk management frameworks;

B the processes established to estimate, aggregate and report the Group’s various categories of oil and gas reserves and resources including reviewing reports from the Reserves Committee, and others, including independent assessors, as the Committee may request, on the operation of controls over the Reserves Process within the Group; and

C disclosure controls and procedures designed to ensure that information disclosed by the Group is properly accumulated and communicated to senior management to allow appropriate discussions regarding disclosure to take place; reporting the results of this assessment to the Board;

**Whistleblowing**

7.6. review arrangements by which employees of the Company and contractors may, in confidence, raise concerns about possible wrongdoing in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;

7.7. review the Company's procedures/systems and/or controls for:

7.7.1. detecting fraud;

7.7.2. preventing bribery;

7.7.3. ensuring compliance with relevant legal and regulatory requirements; review any reports generated to monitor compliance with the same;

**Internal Audit**

7.8. oversee, monitor and review the functioning and effectiveness of Internal Audit in the context of the Company’s overall risk management system, including its strategic focus, activities and plans, staff numbers and qualifications and budget;

7.9. approve the appointment or removal of the Head of Internal Audit;

7.10. 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;

7.11. ensure the internal audit function has adequate standing and is free from management or other restrictions;

7.12. review and assess the annual internal audit plan;

7.13. review reports addressed to the Committee from the internal auditor;

7.14. review and monitor management's responsiveness to the findings and recommendations of the Internal Audit;

7.15. meet the Head of Internal Audit at least twice a year, without management being present, to discuss the function and any issues arising from the internal audits carried out. In addition, the Head of Internal Audit shall be given the right of direct access, at any time as the need arises, to the Chairman of the Board and to the Committee;

**External Audit**

7.16. develop and approve the BG Group Standard on the engagement of external auditors (the "Standard") and review the Standard on an annual basis;

7.17. apply the Standard, as approved by the Committee from time to time, by:

7.17.1. selecting the external auditors for recommendation to the Board and appointment by shareholders and agreeing their fees and other compensation and terms of engagement;

7.17.2. considering any questions of resignation or removal of the external auditors (including putting the external audit contract out to tender at least every ten years);

7.17.3. pre-approving audit and non-audit services to be provided by the external auditors, in accordance with the Standard;

7.17.4. assessing annually the qualification, expertise and resources, and transparency, independence and objectivity of the external auditors and the effectiveness of the audit process, including the cost effectiveness of the audit and reporting to the Board the results of that review;

7.17.5. reviewing annual written statements from the external auditors that:

1. disclose all relationships between the auditors and the Group, as set out in the Policy, and report on the performance of non-audit activities, rotation of audit partners and staff, auditor relationships, employment of former auditors, including the confirmation of auditor independence; and
2. describe the auditors’ internal quality control procedures and any material issues raised by recent internal or external reviews or investigations relevant to services provided to the Group, together with any remedial action taken;

7.17.6. reviewing with the external auditors any relationships or services that may impact on the independence and objectivity of the external auditors and taking, or recommend that the Board takes, appropriate action to ensure the independence of the external auditors;

7.17.7. establishing, overseeing and reviewing procedures for the receipt, retention of information about and treatment of complaints relating to financial matters, internal accounting controls and auditing, including the confidential and anonymous submission by staff of concerns relating to questionable accounting and auditing matters;

7.17.8. setting out in an annual report to the Board, that it has reviewed the scope of the annual audit and the independence and objectivity of the auditors in accordance with the Standard and is satisfied that the integrity of the audit has not been compromised. The Committee will also recommend whether a report should be given to shareholders;

7.17.9. reporting to the Board its conclusions with respect to the matters that the Committee has considered, including identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

**Other**

7.18. consider any other matters, as may be delegated from time to time by the Board;

7.19. report to the Board on how responsibilities identified in these Terms of Reference have been discharged;

7.20. review the adequacy of these Terms of Reference and the Committee’s own effectiveness annually, reporting any proposed changes to the Board for review and approval; and

7.21. ensure that these terms of reference are made available on the Company’s website in accordance with the Governance Code.

The foregoing list of duties is not exhaustive and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the effective performance of its oversight function.

**8 AUTHORITY**

8.1. The Committee is authorised by the Board, at the expense of the Company, to investigate all matters that fall within these Terms of Reference.

8.2. The Committee is accountable to the Board and shall not be entitled to sub-delegate all or any of the powers and authority delegated to it (except for the authority to pre-approve non-audit services from the external auditors which, in certain circumstances, is delegated to any one member of the Committee in accordance with the Standard).

8.3. In discharging its responsibilities, the Committee shall have unrestricted access to the Company’s management, books and records and shall be entitled to receive such information as it requires from any employee. All employees shall be directed to co-operate with any request made by the Committee.

8.4. It is the responsibility of the management of the Group to prepare financial statements in accordance with IFRS, as adopted by the EU, the SORP and of the Group’s external auditors to audit those financial statements. The Committee’s responsibility is one of oversight and, in fulfilling their responsibilities, it is recognised that the members of the Committee do not represent themselves to be accountants or auditors by profession. As such, it is not the duty of the Committee or its members to conduct auditing or accounting reviews or procedures.

8.5. The Committee is authorised to obtain, external legal or other professional advice at the expense of the Company and to secure the attendance of third parties with relevant experience and expertise at meetings of the Committee, as it considers necessary.