

UTILICO INVESTMENTS LIMITED (the "Company")

AUDIT COMMITTEE - TERMS OF REFERENCE

1. Constitution

The Audit Committee was established by a resolution of the Board of Directors of the Company on 3 May 2007. The Audit Committee is accountable to the Board.

These Terms of Reference, drafted in accordance with the Combined Code published in July 2003 (as amended in June 2006), were approved by the Board and adopted by the Audit Committee on 3 May 2007.

2. Composition of the Audit Committee

The Audit Committee will be established by the Board and shall be comprised of the independent Directors of the Company. The Board should make appointments to the Audit Committee, in consultation with the Audit Committee Chairman. At least one member of the Audit Committee should have recent and relevant financial experience. A process for induction and ongoing training should be established by the Audit Committee.

The quorum shall be two. Directors must not be in the UK (if joining by telephone) if they are to be included in the quorum.

Attendance

- a. The following may be required to attend the relevant parts of the meetings in person or by telephone:-

The Fund Manager
The External Auditors
Head of Investment Trust Accounting at F&C
Head of Audit, Risk and Compliance at F&C or his deputy

- b. The Secretary of the Company will act as Secretary to the Audit Committee.

Meetings

The Audit Committee will meet at least twice a year and additional meetings shall be called by the Secretary at the request of the Chairman of the Audit Committee.

A quorum shall be any two members including the Chairman of the Audit Committee, or the Chairman's nominated delegate.

3. Background

The Company has appointed ICM Limited as its Investment Manager. Under the terms of the Investment Management Agreement, ICM Limited provides the services of four individuals (including Charles Jillings) as employees of the Company. Administration services are provided by F&C Management ("F&C"), which is also the Secretary.

The Company has no interest in the share capital of ICM or F&C.

The Audit Committee will expect to be given prompt warning by ICM and/or F&C of matters of significant concern to the Company.

The audit committee established by F&C is responsible for matters pertaining to the F&C Group. The Audit Committee will therefore not consider matters relating to F&C, save as they affect the Company.

4. Responsibilities

a) Financial Reporting

- i) The Audit Committee will review the significant financial reporting issues and judgements made in preparing the annual and interim reports, preliminary announcements and other formal statements (eg summary financial statements and release of price sensitive information) and the accounting policies adopted and the contents of such documents. The Audit Committee will also review the adequacy and scope of the external audit thereof and compliance with regulatory and financial reporting requirements, the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.
- ii) In particular, the Audit Committee should satisfy itself that the annual and interim accounts and any other significant published financial information are properly and carefully prepared, and give a fair representation of the Company's affairs.
- iii) For the purpose of exercising its responsibilities, as set out in i) and ii) above, the Audit Committee will meet shortly before the accounts are presented to the Board in September (finals) and February (interims). At these meetings, the Head of Investment Trust Accounting will report any changes in accounting policy or treatment affecting the Company's Report and Accounts and any other material matters which the members of the Audit Committee might not otherwise understand. The Audit Committee will consider whether the accounting policies adopted are appropriate.
- iv) The Audit Committee shall have timely and unrestricted access to relevant documents relating to the affairs of the Company.

b) Internal Controls and Risk Management Systems

The Audit Committee is responsible for reviewing the Company's internal control and risk management systems and making recommendations to the Board.

- i) At the meeting reviewing the interim results (February), if available, or at the meeting reviewing the annual results (September), the Audit Committee will receive a statement by the directors of F&C on internal corporate governance containing a report in relation thereto from the reporting accountants (AAF report).
- ii) Each quarter a control report and a risk issues table will be prepared by F&C and by the management team. At the meeting in September, the Head of Audit, Risk and Compliance or his deputy and Charles Jillings or his designate will be in attendance to provide a verbal report.
- iii) The Audit Committee should review and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee shall report and make any necessary recommendations to the Board in relation to such policies, procedures and controls with the exception of those matters relating to the setting of investment strategies, objectives and restrictions and adherence thereto. Such matters shall remain the responsibility of the Board.

c) Audit

i) Internal

The Audit Committee will, on an annual basis, monitor and review the need for an internal audit function and make the appropriate recommendation to the Board and explain in the annual report why such a function is not necessary.

The Audit Committee will review on an annual basis the statement by the directors of F&C on internal corporate governance (AAF Report) as it relates to the Company.

The Chairman of the Audit Committee may meet with the Head of Audit, Risk and Compliance and Charles Jillings on an annual basis to discuss relevant matters.

ii) External

The external auditors of the Company shall be present at the Audit Committee meeting reviewing the annual results (September) by telephone. The Audit Committee shall at any time meet separately with the auditors if it so desires, however, the Audit Committee will meet with the external auditors at least once a year without management in attendance.

The Chairman of the Audit Committee may meet with the external auditors to discuss findings during the course of the audit.

In order to monitor the Company's relationship with its external auditors and to ensure that full information is made available to them, the Audit Committee will receive a report from the Head of Investment Trust Accounting at each Committee meeting.

The Head of Investment Trust Accounting will also make recommendations to the Audit Committee concerning the auditors' remuneration and re-appointment. The Audit Committee will approve the terms of engagement and recommend to the Board that it seeks approval from shareholders such appointment, re-appointment or removal if appropriate, and remuneration.

The Audit Committee will oversee the selection process of possible new appointees as external auditors.

The Audit Committee will review the audit letter of representation and engagement letter prior to signature by the Board.

The Audit Committee will assess annually the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process.

If the external auditors resign, the Audit Committee will investigate the issues giving rise to such resignation and consider whether any action is required.

The Audit Committee will develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the auditor. The policy will specify the types of non-audit work from which the external auditors are excluded. If non-audit services are provided, disclosure should be made in the annual report regarding auditor objectivity and independence.

d) Whistleblowing policy

The Audit Committee will review arrangements in the Company and at F&C by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to establish that, in so far as they may affect the Company, arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

e) Custodian Agreement

The Audit Committee shall be responsible for the periodic review of the agreements with JPMorgan Chase and Bermuda Commercial Bank for the provision of custodian services to the Company.

f) Other matters

The Audit Committee will review such other matters as directed by the Board.

Reporting

The minutes of each meeting of the Audit Committee will be circulated to all Directors of the Company and reports made to the Board as appropriate.

These Terms of Reference are to be made available on request.

Annual Report Disclosure

- a. Description of the work of the Audit Committee. (C.3.3)
- b. Formal policy regarding non-audit work. (C.3.7)
- c. Explanation of absence of internal audit function. (C.3.5)
- d. Internal control and management of risk.
- e. Where the Board does not accept the Audit Committee's recommendation on the appointment, reappointment or removal of an external auditor, a statement explaining the recommendation and the reasons why the Board has taken a different position. (C.3.6)