



Dairy Crest Group plc

Audit Committee Terms of Reference

1. OBJECTIVES

The Committee is a committee of the Board of Dairy Crest Group plc.

The Board has delegated to the Committee the authority to oversee and review, on an ongoing basis:

- ◆ The financial reporting process;
- ◆ The system of internal control and management of business risks;
- ◆ The internal audit process;
- ◆ The external audit process and the relationship with the Company's external auditors;
- ◆ The Company's process for monitoring compliance with laws and external regulations.

The Committee will report back to the Board, with whom final responsibility rests for financial reporting, compliance with laws and regulations and risk management.

2. ORGANISATION

2.1 Membership

The Committee shall be appointed by the Board and shall comprise no less than 3 members. All members of the Committee shall be independent non-executive directors. The Board shall satisfy itself that at least one member, or members of the Committee collectively, has/have sufficient recent and relevant financial experience, and that the Committee as a whole has competence relevant to the sector(s) in which the Group operates.

Membership of the Committee shall be reviewed at least once every three years.

The Chairman of the Committee shall be appointed by the Board. The Chairman of the Board of Dairy Crest Group plc shall not be a member of the Committee but may attend meetings.

The initial term of office shall not exceed 3 years but the Chairman and members may be reappointed for further terms, as determined by the Board.

In the absence of the Chairman of the Committee, the remaining members shall appoint one of their number to act as chairman of the meeting.

The quorum for any meeting will be two members.

The secretary of the Committee will be the company secretary or such other person as is agreed by the Board.

Only members of the Committee are entitled to attend and vote at the meetings of the Committee. The Chairman of the Company, the Chief Executive, the Group Finance Director, the Head of Internal Audit, the Group Director of Finance, the Group Financial Controller, the Company Secretary & General Counsel and the external audit Engagement Partner for the time being shall, at the invitation of the Chairman of the Committee, attend meetings of the Committee, but not as members. Other Board members shall also, at the invitation of the Chairman of the Committee, attend meetings of the Committee. At least once a year, the Committee shall meet with the external auditors without Executive Directors present and with the Head of Internal Audit without Executive Directors present.

2.2 Meetings

Meetings shall be held at least three times a year and should coincide with the Group's financial reporting cycle and typically would be timed to occur:

- before the end of the financial year
- after the year end, but before finalisation of the annual report and preliminary announcement
- before the issue of the interim statements

Additional meetings may be convened by the Chairman of the Committee or any member of the Committee. If considered necessary, the external auditors, internal auditors, the Chief Executive or Group Finance Director may at any time request the Chairman to convene a meeting of the Committee.

The Committee will meet the internal and external auditors three times each year and they may be invited to make presentations to the Committee on individual issues as appropriate.

The Secretary of the Committee shall ascertain at the beginning of each meeting of the Committee the existence of any conflicts of interest and minute them accordingly.

2.3 Reporting

The Chairman of the Committee shall report to the Board following each meeting of the Committee to

- ◆ Update the Board about Committee activities and make appropriate recommendations;
- ◆ Ensure the Board is made aware of matters brought to the attention of the Committee which may significantly impact the financial condition or affairs of the business.

The proceedings of all meetings will be minuted and the minutes of each meeting will be circulated to the Board unless a conflict of interest exists.

The Committee shall compile a report describing the work of the Committee in discharging its responsibilities. The report should include, amongst other matters

- ◆ The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor;
- ◆ An explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor;
- ◆ Information on the length of tenure of the current audit firm;
- ◆ When a tender was last conducted;

- ◆ Advance notice of any retendering plans.

3. DELEGATED AUTHORITY

The Committee has delegated authority, on behalf of the Board and in connection with the fulfilment of its responsibilities, to

- ◆ Seek any information it requires from any employee, contractor or agent of the Company;
- ◆ Require any employee to provide information or attend meetings, as required;
- ◆ Seek information from internal and external auditors;
- ◆ Obtain outside legal or other professional advice or information from third parties, the costs of which shall be borne by the Company.

Where external advice is required, the Chairman of the Board shall be notified of the anticipated cost, together with the reason for such expenditure, where appropriate.

4. RESPONSIBILITIES

Members of the Committee shall exercise their responsibilities in accordance with their duties under sections 171 to 177 of the Companies Act 2006. The Committee will

4.1 Financial reporting

- ◆ Monitor the integrity of the financial statements of the Group including its annual and interim reports and preliminary and interim results announcements. Review significant financial reporting issues and appropriateness of judgements made. Judgement shall be made as to the quality, not just acceptability, of accounting principles applied, the reasonableness of significant judgements and the clarity of disclosures;
- ◆ Review and challenge where necessary:
 - whether the Group has followed relevant accounting standards and made appropriate estimates or judgements, taking into account the views of the external auditor
 - the clarity of disclosures in the Group's financial statements
 - all material information presented with the financial statements, such as operating and financial review and the corporate governance statement and directors' report (insofar as they relate to audit and risk management)
 - ensure the annual and interim financial statements meet the relevant statutory and London Stock Exchange requirements and are in accordance with accepted accounting standards, focussing particularly on judgemental areas, significant audit adjustments resulting from the audit and the going concern assumption
 - review the methods used to account for, and the accounting implications of, major or unusual transactions
 - consider the major findings of internal investigations which raise material financial issues and management's response

4.2 Internal control and risk management

The Committee will

- ◆ Review the Group's risk management procedures to identify the assurance obtained by the Board and senior management in respect to identifying and managing the risks to the business and consider the appropriateness of the risk management procedures;
- ◆ Review the Company's systems for internal control with emphasis on the areas of greatest financial risk and the management thereof;
- ◆ Ensure that internal control recommendations made by internal and external auditors have been properly considered by management and that effective action has been taken in response;
- ◆ Review the Group's statements and practices on internal controls, risk management and other aspects of corporate governance included in the Annual Report prior to endorsement by the Board;
- ◆ Receive reports on management's provisions for the security of computer systems and the contingency plans for processing financial information in the event of a systems breakdown;
- ◆ 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.

4.3 Internal Audit

The Committee will

- ◆ Review the activities of the internal audit function and approve the appointment or dismissal of the Head of Internal Audit;
- ◆ Review and approve the annual audit plan and any updates thereof;
- ◆ Review the standing, resources, authority and effectiveness of the internal audit function and the relationship of the internal and external auditors;
- ◆ Review summary conclusions of internal audit reports and recommendations including management's responsiveness to previous internal audit findings and recommendations;
- ◆ Meet the Head of Internal Audit at least once a year, without management being present, to discuss their remit 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 to the Chairman of the Company and to the Committee;
- ◆ Appraise the effectiveness of the Group internal audit function;
- ◆ The Chairman of the Committee shall approve the remuneration of the Head of Internal Audit.

4.4 External Audit

The Committee will

- ◆ Oversee the process for selecting the external auditor and make appropriate recommendations through the Board, for consideration and approval of the shareholders at the AGM, in relation to the appointment, re-appointment and removal of the external auditor;
- ◆ Approve the remuneration and terms of engagement of the external auditor;
- ◆ Develop and review policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. Ensure strict application of Group policy, including appropriate pre-approval of fees in respect of non-audit services;
- ◆ Discuss with the external auditor the nature and scope of the external audit before the audit commences and review the auditor's quality control procedures and steps taken by the auditor to respond to changes to regulatory and other requirements;
- ◆ Annually assess the external auditor's qualification, expertise and resources, effectiveness, independence and objectivity taking into consideration relevant UK professional and regulatory requirements and ensuring that key partners are rotated at appropriate intervals;
- ◆ Review with the external auditors the findings of their work, including any major issues that arose during the course of the audit and have subsequently been resolved and those issues (if any) that are unresolved; key accounting and audit judgements; levels of errors identified during the audit; obtaining explanations from management and, where necessary, the external auditors if any errors remain unadjusted;
- ◆ Discuss any other issue which the external auditors raise as a matter of concern.
- ◆ Meet the external auditors at least once a year, without management being present, to discuss any issues arising from their work.

4.5 Compliance with laws and regulations

The Committee will obtain updates from management on legal and compliance matters including outstanding litigation to such extent that they may have an impact on the financial statements.

4.6 Other responsibilities

The Committee will

- ◆ Perform other functions as requested by the Board, instituting special investigations if necessary;
- ◆ Evaluate the Committee's own performance on an annual basis.

The Chairman and Chief Executive will also review the performance of the Committee, consulting the external auditors as necessary, and reporting to the Board on their findings as appropriate.