

THORNTONS PLC

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Approved by the Board on 15 June 2005

1. **MEMBERSHIP**

Members and the Chairman of the Committee shall be appointed by the Board. All members of the Committee shall be independent non-executive directors and the Committee shall consist of not less than two members. A quorum shall be two members.

At least one member shall shall have recent and relevant financial experience.

2. **ATTENDANCE**

The Chairman of the Board, the Chief Executive, the Finance Director, the Head of Internal Audit, and a representative of the external auditors shall be invited to attend at the Committee's discretion but shall not have a right of attendance. The Committee shall have the right to meet with the internal and external auditors without any Executive Director present.

3. **SECRETARY**

The Company Secretary or their nominee shall act as the Secretary of the Committee.

4. **FREQUENCY AND NOTICE OF MEETINGS**

- a) Meetings shall be held not less than twice per year. The external auditors may request a meeting if they consider that one is necessary.
- b) Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee or any two members of the Committee giving reasonable notice to the members of the Committee.

5. **ANNUAL GENERAL MEETING**

The Chairman of the Committee shall attend the AGM prepared to respond to any shareholder questions on the Committee's activities.

6. **AUTHORITY**

The Committee is authorised by the Board to investigate any activity within its Terms of Reference and shall be empowered to interview any director or other employee it believes can help it with its enquiries, and all employees are directed to co-operate with any request made by the Committee.

The Committee may obtain outside legal or other independent professional advice if it considers this necessary.

7. DUTIES

The main role and responsibilities of the Audit Committee are to:

- Monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- Review the Company's internal financial controls and internal control and risk management systems;
- Monitor and review the effectiveness of the Company's internal audit function;
- Make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approve their remuneration and terms of engagement;
- Review and monitor the external auditor's independence and the effectiveness of the audit process;
- Develop and implement a policy on the engagement of the external auditor to supply non-audit services.

In the furtherance of these duties and responsibilities the Committee shall :

- a) discuss with the external auditor(s) before the audit commences the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- b) review the half-year and annual financial statements before submission to the Board, focusing particularly on:
 - i. any changes in accounting policies and practices
 - ii. major judgmental areas
 - iii. significant adjustments resulting from the audit
 - iv. the going concern assumptions
 - v. compliance with accounting standards
 - vi. compliance with stock exchange and legal requirements
 - vii. clarity of disclosure in the financial statements
- c) discuss problems and reservations arising from the Interim and Final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- d) review the external auditor's management letter and management's response;
- e) review the effectiveness of the Company's internal controls and risk management systems and review the Company's statement on internal control systems prior to endorsement by the Board;
- f) review the manner in which an internal audit programme is undertaken, ensure co-ordination between the internal and external auditors, and ensure that the

internal audit plan is adequately resourced and that an internal audit function has appropriate standing within the Company

- g) consider the major findings of internal investigations and management's response;
- h) consider other topics, as defined by the Board.
- i) review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrong doings in financial reporting or other matters ('Whistleblowing') so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

8. **PERFORMANCE REVIEW**

The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

9. **REPORTING**

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.