



DAIRY CREST GROUP AUDIT COMMITTEE TERMS OF REFERENCE

ADOPTED - 23 MAY 2002

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 3 non-executive directors.

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 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.

The Committee may invite such other persons to its meetings as it deems appropriate.



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2.2 Meetings

Meetings shall be held at least twice a year, normally in advance of publication of the Company's preliminary and interim results.

Additional meetings may be convened by the Chairman of the Committee, as required, for example at the request of the Group Finance Director to consider any accounting or financial reporting matters. Special meetings shall be convened by the Company Secretary if requested to do so by the Board or at the request of the external auditors.

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

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 at the time of, or before, the next full Board meeting.

3. DELEGATED AUTHORITY AND REPORTING

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 Board shall be notified of the anticipated cost, together with the reason for such expenditure, where appropriate.



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4. DETAILED RESPONSIBILITIES

4.1 Financial reporting

The Committee will

- ◆ review draft Reports and Accounts before submission to the Board (including the Annual Report as a whole and any Interim Statements). The Committee's report to the Board will include its judgement as to the quality, not just acceptability, of accounting principles applied, the reasonableness of significant judgements and the clarity of disclosures;
- ◆ assess whether the financial statements reflect appropriate accounting principles on a consistent basis and comply with FSA Listing Rules;
- ◆ monitor changes in accounting policies and practices and review significant audit adjustments;
- ◆ confirm compliance with Stock Exchange and legal requirements.

4.2 Internal control

The Committee will

- ◆ 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 statements on internal control included in the Annual Report prior to endorsement by the Board;
- ◆ receive an annual report 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.

4.3 Internal Audit

The Committee will

- ◆ review the activities of the internal audit function;
- ◆ review the annual audit plan and any updates thereof;
- ◆ review the standing, resources 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.

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4.4 External Audit

The Committee will

- ◆ consider and make recommendations to the Board on the appointment/reappointment of external auditors;
- ◆ review the proposed scope of the external auditors' work;
- ◆ consider the performance and independence of the external auditors, including reviewing fees and the range and extent of services provided to the company, particularly the volume of non-audit services supplied;
- ◆ discuss matters of significance arising from the Interim and Final Audits and from management letters, together with management responses;
- ◆ discuss any other issue which the external auditors raise as a matter of concern.

4.5 Compliance with laws and regulations

The Committee will

- ◆ obtain updates from management on legal and compliance matters including outstanding litigation in order to assist the Board in determining that all regulatory compliance matters have been considered in the preparation of business and financial statements;
- ◆ review the findings of any examinations by regulatory agencies in preparation for a full Board discussion.

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.