

MERLIN ENTERTAINMENTS PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

Members:	Chairman of the Committee At least 2 further Independent Non-executive Directors
Observers:	KIRKBI Representative Non-executive Director ¹
Chairman:	Independent Non-executive Director
Attendees:	Chairman of the Board Group Chief Executive Officer Group Chief Financial Officer Auditors Company Secretary
Frequency of Meetings:	At least 3 meetings per annum in line with the Company's financial reporting timetable.

I Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Audit Committee. Members shall be entitled to appoint any other independent Non-executive Director as their alternate.
- 1.2 The Committee shall be made up of at least 3 members and where possible include a member of each of the Commercial & Strategic and Health, Safety & Security Risk Committees as well as the Remuneration Committee.
- 1.3 All members of the Committee shall be Independent Non-executive Directors and as a whole the Committee should have competence relevant to the sector in which the Company operates. At least one committee member shall have recent and relevant financial experience and preferably a professional qualification from one of the professional accountancy bodies. The Chairman of the Board may not be a member of the Committee but may attend meetings of the Committee.
- 1.4 Only members of the Committee have the right to attend Committee meetings. The Committee normally requires the Group Chief Financial Officer, Auditors and Company Secretary to attend. However, other individuals such as the Chairman of the Board, Group Chief Executive Officer, other Directors and representatives from the finance function of the Group may be invited to attend all or part of any meeting of the Committee as and when appropriate.

¹ KIRKBI is entitled to appoint one Observer to the Main Board, Audit Committee, Remuneration Committee and Nomination Committee for so long as it holds more than 10% of the issued share capital of the Company pursuant to a Relationship Agreement dated 30 October 2013.

- 1.5 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.6 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods.
- 1.7 The Board shall appoint the Chairman of the Committee who shall be an Independent Non-executive Director. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2 Secretary

- 2.1 The Company Secretary or their nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4 Frequency of meetings

- 4.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the Chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Group Chief Executive Officer, the Group Chief Financial Officer, the External Audit Lead Partner and the Group Internal Audit and Risk Management Director.

5 Notice of meetings

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee:
 - (a) in accordance with the agreed schedule of meetings of the Committee;
 - (b) at the request of any of the Committee's members or
 - (c) at the request of external or internal auditors if they consider it necessary.

- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other attendee, no later than 5 working days before the date of the meeting. Supporting papers shall, wherever practicable, be sent to Committee members and to other attendees as appropriate, at the same time.
- 5.3 Shorter notice and late submission or distribution of papers will be permitted at the discretion of the Chairman of the Committee.
- 5.4 Minutes and papers required by the Committee may be distributed electronically (including on the Company's Board information management portal) or in hard copy as circumstances permit.

6 Minutes of meetings

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Draft minutes of Committee meetings shall be distributed promptly to all members of the Committee. Once approved, minutes should be distributed to all other members of the Board unless it would be inappropriate to do so in the opinion of the Chairman of the Committee.

7 Annual General Meeting

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8 Duties

The Committee shall carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

8.1 Financial reporting

- 8.1.1 The Committee shall review and monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance (including any interim financial statements) as delegated to it from time to time by the Board and review and report to the Board on significant financial reporting issues and judgements which they contain having regard to any matters communicated to it by the auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any significant financial information contained in other documents as may be delegated to it by the Board from time to time.

- 8.1.2 The Committee shall review and challenge where necessary:
- 8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
 - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 8.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - 8.1.2.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and financial risk management);
 - 8.1.2.6 whether the financial statements and any announcements relating to the financial results of the Company are fair, balanced and understandable;
 - 8.1.2.7 whether the annual report and accounts properly and appropriately describes the principal risks and uncertainties affecting the Company, as well as the disclosures relating to the Viability Statement and associated assessment of the Group's prospects over the longer term;
 - 8.1.2.8 whether in particular the Group Financial Review contained in the annual report and accounts is accurate, fair, balanced and understandable;
 - 8.1.2.9 the Independent Auditor's Report included in the annual report and accounts.
- 8.1.3 The Committee shall prepare and approve for publication an annual Audit Committee Report for inclusion in the annual report and accounts.
- 8.1.4 The Committee shall, where applicable, review the annual financial statements of any defined benefit or final salary pension funds in respect of which Company has liability where not reviewed by the Board as a whole.
- 8.1.5 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.

8.2 Internal controls and financial risk management systems

The Committee shall:

- 8.2.1 keep under review on an ongoing basis the effectiveness of the Company's internal controls and its overall risk management system;
- 8.2.2 review and approve the statements to be included in the annual report concerning internal controls and financial risk management; and

8.2.3 in particular review:

- 8.2.3.1 the policies and overall process for identifying and assessing financial risks and managing their impact on the Company;
- 8.2.3.2 regular assurance reports from management, internal audit, external audit and others on matters related to financial risk and internal controls; and
- 8.2.3.3 the timeliness of, and reports on, the effectiveness of corrective action taken by management.

8.3 Whistleblowing and fraud

The Committee shall on an annual basis:

- 8.3.1 review the Company'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;
- 8.3.2 review the Company's procedures for detecting fraud; and
- 8.3.3 review the Company's systems and controls for the prevention of bribery, its code of corporate conduct/business ethics and its policies for ensuring that the Company complies with relevant regulatory and legal requirements, receive reports on non-compliance and consider appropriate action.

8.4 Internal audit

The Committee shall:

- 8.4.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 8.4.2 approve the appointment and removal of the Group Internal Audit and Risk Management Director;
- 8.4.3 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 for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 8.4.4 review and assess the annual internal audit plan;
- 8.4.5 review promptly all reports on the Group from the internal auditors;
- 8.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and

- 8.4.7 meet the Group Internal Audit and Risk Management Director at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.
- 8.4.8 In addition, the Group Internal Audit and Risk Management Director shall be given the right of direct access to the Chairman of the Board and to the Committee.
- 8.4.9 If at any time the Company does not have an internal audit function, the Committee should consider annually whether there should be one and make a recommendation to the Board accordingly. The absence of such a function should be explained in the annual report.

8.5 External Audit

The Committee shall:

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall also ensure that the audit services contract is put out to tender, the timing of which should be no less frequent than required by the relevant regulation in connection with audit retender and auditor rotation in force at the time. This will enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. The Committee shall also oversee the tender and selection process for new auditors and in respect of such a tender ensure that all tendering firms have such access as is necessary to information and individuals. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 8.5.2 oversee the relationship with the external auditor including (but not limited to):
 - 8.5.2.1 negotiation and agreement of the statutory audit fees ensuring that the level of fees is appropriate to enable an adequate audit to be conducted
 - 8.5.2.2 recommendation as to their remuneration, for non-audit services; ensuring that the fees to be paid to the external auditor comply with company policy and regulatory requirements (e.g. on prohibited services);
 - 8.5.2.3 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 8.5.2.4 assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - 8.5.2.5 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);

- 8.5.2.6 agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- 8.5.2.7 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- 8.5.2.8 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 8.5.2.9 seeking to ensure co-ordination with the activities of the internal audit function;
- 8.5.2.10 evaluating the risks to the quality and effectiveness of the financial reporting process and considering the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- 8.5.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall provide the external auditor with the opportunity to meet the Committee at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 8.5.5 review the findings of the audit with the external auditor including but not be limited to, the following:
 - 8.5.5.1 a discussion of any major issues which arose during the audit and the effectiveness of the audit;
 - 8.5.5.2 any accounting and audit judgements;
 - 8.5.5.3 levels of errors identified during the audit;
 - 8.5.5.4 the effectiveness of the audit process;
 - 8.5.5.5 the basis for the Viability Statement and going concern assumption; and
 - 8.5.5.6 compliance with relevant financial reporting standards and relevant financial and governance reporting requirements;
- 8.5.6 discuss any difficulties, reservations or other matters arising from the external auditors' audits (in the absence of management where necessary);
- 8.5.7 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.5.8 review the management letter and management's response to the auditor's findings and recommendations;

8.6 Reporting responsibilities

- 8.6.1 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- 8.6.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
 - 8.6.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - 8.6.1.3 any other issues on which the Board has requested the Committee's opinion.
- 8.6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.6.3 The Committee shall, if requested by the Board, review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy
- 8.6.4 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; 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 auditor; and all other information requirements set out in the UK Corporate Governance Code (Code).
- 8.6.5 In compiling the reports, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of the Company's viability and its continuation as a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

8.7 Other matters

The Committee shall:

- 8.7.1 review the Company's dividend policy from time to time and make recommendations to the Board regarding the payment and amount of interim and final dividends;
- 8.7.2 review and make recommendations as to whether any significant changes in accounting policies or practices are necessary or desirable;

- 8.7.3 recommend to the Board any treasury policies (including foreign currency exposure and the use of financial derivatives);
- 8.7.4 Review tax provisions, deferred tax assets and liabilities and ensure adequate disclosure and reporting on all tax-related matters;
- 8.7.5 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 8.7.6 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 8.7.7 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;
- 8.7.8 be responsible for co-ordination of the internal and external auditors;
- 8.7.9 oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- 8.7.10 work and liaise as necessary with all other Committees of the Board; and
- 8.7.11 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 Authority

The Committee is authorised:

- 9.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 9.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 9.3 to call any employee to be questioned at a meeting of the Committee as and when required;
- 9.4 to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.
