



**TERMS OF REFERENCE OF AUDIT
COMMITTEE**

HMV GROUP PLC

TERMS OF REFERENCE FOR AUDIT COMMITTEE

1. CONSTITUTION

This committee of the Board known as the Audit Committee (the "**Committee**") is established under the Articles of Association of the Company. In these terms of reference, the "**Group**" means the Company and its subsidiaries from time to time.

2. MEMBERSHIP

2.1 The Committee shall be appointed by the Board, on recommendation of the Nomination Committee in consultation with the chairman of the Committee, from amongst the independent non-executive directors of the Company and shall consist of not less than three members. At least one member shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.

2.2 The chairman of the Committee shall be appointed by the Board. In the absence of the chairman of the Committee or any deputy appointed by the Board, the remaining members present at any meeting shall elect one of their number to chair the meeting.

2.3 If a regular member is unable to act due to absence, illness or other cause, the chairman of the Committee may, if there are any other independent non-executive directors available, appoint another independent non-executive director of the Company to serve as an alternate member.

2.4 Appointments to the Committee shall be for a period up to three years, which may be extended for two further three-year periods, provided that the director remains independent.

3. SECRETARY

The secretary of the Committee shall be the Company Secretary or their nominee, or such other person, as the Committee shall from time to time decide.

4. QUORUM

The quorum necessary for the transactions of the business of the Committee shall be two 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.

5. ATTENDANCE AT MEETINGS

Only members of the Committee shall have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive and Group Finance Director, other directors, the Head of Internal Audit, representatives of the Auditors and representatives from the finance function may be invited to attend all or part of any meetings as and when appropriate.

6. ANNUAL MEETING WITH EXTERNAL AND INTERNAL AUDITORS

At least once a year the Committee shall meet with the internal auditors and the Auditors either together or separately without any executive member of the Board in attendance.

7. ANNUAL GENERAL MEETING

The chairman of the Committee shall attend the annual general meeting of the Company to answer shareholders' questions relating to the matters within its remit.

8. FREQUENCY OF MEETINGS

8.1 Meetings shall be held not less than three times a year and shall be summoned by the secretary of the Committee at the request of the chairman of the Committee.

8.2 In addition to the routine meetings of the Committee, either the chairman of the Committee, the Auditors or the Group Finance Director may at any time request the secretary of the Committee to summon a meeting if he or they consider that one is necessary. Further, the Auditors and the Group Finance Director may have access to the chairman or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.

8.3 The Committee or the chairman of the Committee shall meet with the Board at least once a year.

9. AUTHORITY

9.1 The Committee is authorised by the Board to investigate any activity within its terms of reference.

- 9.2 The Committee is authorised by the Board to seek any information it requires from any employee or director of the Group and all such employees or directors are directed to co-operate with any request made by the Committee.
- 9.3 The Committee is authorised by the Board to obtain internal or external legal or other independent professional advice and to secure the attendance of internal or external professional advisers at its meetings if it reasonably considers any of these matters necessary.

10. DUTIES

The duties of the Committee shall be:

- (a) to consider the appointment of the Auditors, including assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the Auditors on their own internal quality procedures, and any matters relating to the resignation or dismissal of the Auditors;
- (b) to review annually the cost effectiveness, independence and objectivity of the Auditors taking into account relevant professional and regulatory requirements and the relationship with the Auditors as a whole, including the provision of non-audit services;
- (c) to satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditors and the Group (other than in the ordinary course of business);
- (d) to monitor the Auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners;
- (e) to consider the approval of the Auditors' remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted and the level of fees paid by the Group compared to the overall fee income of the firm, office or partner and other related requirements;
- (f) to consider the risk of the withdrawal of the Auditors' firm from the market;
- (g) to develop and implement a policy on the supply of non audit services by the external auditors; to keep under review any non-audit activities of the Auditors; and to monitor the fees for such activities;

- (h) to discuss with the Auditors before the audit commences the nature, scope and work plan of the audit and the quality of the previous year's audit including issues raised by the Auditors and management the previous year;
- (i) to monitor and challenge where necessary the integrity of the financial statements of the Company; to review the financial statements, annual and interim accounts and accompanying reports to shareholders; preliminary announcement of results; interim management statements and any other announcement regarding the Group's results or other financial information to be made public for fairness of presentation of the financial position of the Group with particular reference to:
 - (i) the consistency of, and any changes in accounting policies and practices;
 - (ii) the quality and accuracy of record keeping;
 - (iii) major judgmental areas;
 - (iv) significant adjustments resulting from the audit;
 - (v) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (vi) the going concern assumption;
 - (vii) compliance with accounting standards;
 - (viii) compliance with the Listing Rules of the UK Listing Authority and legal requirements and all applicable codes of corporate governance practices;
- (j) to discuss issues and recommendations arising from the audit, and any matters the Auditors may wish to discuss (and at least once a year in the absence, of executive members of the board and other persons having a right to attend meetings of the Committee but who are not members of the Committee);
- (k) to discuss whether the Committee should recommend that the accounts should be approved by the Board in the board meeting following the Committee meeting and, if so, whether that approval should be granted subject to any matters discussed by the Committee;

- (l) to review the Auditors' management letter and management's response to the Auditor's findings and recommendations;
- (m) to approve the scope of the Company's annual risk management programme, to review the results of the risk identification process and to provide input on risks and internal controls into the annual Board strategy discussions;
- (n) to review the effectiveness of the risk management process and discuss significant risk issues with the Board;
- (o) to review the operation, work programme and effectiveness of the internal audit function and to 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. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (p) when relevant, to consider the major findings of internal audit reviews and management's response and ensure co-ordination between the internal auditors and the Auditors;
- (q) to approve the appointment and removal of the head of the internal audit function;
- (r) to review and consider reports, including the annual internal audit plan, from the internal auditors and the Auditors on the system of internal control and any material control weakness;
- (s) to review any statement to be made by the Company in its annual report and accounts on internal control systems prior to endorsement by the Board;
- (t) to oversee the establishment and maintenance, and to review the operation of, good business practices throughout the Group and to investigate, at the request of any member of management, any issues of concern to such person relating to the Group's management, reporting, control or business procedures;
- (u) to review the annual financial statements of the pension funds where not reviewed by the Board as a whole;
- (v) to review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other

matters. The Committee will ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

- (w) to review the Group's procedures for detecting fraud; and
- (x) to consider other topics as notified from time to time by the Board.

11. REPORTING RESPONSIBILITIES

- 11.1 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.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

12. OTHER MATTERS

12.1 The Committee shall:-

- (a) Be provided with sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both for new members and on an ongoing basis;
- (c) give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of last resort; and
- (f) 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

12.2 The Head of Internal Audit shall have the right of direct access to the chairman of the Committee at any time and shall meet with the chairman of the Committee, without management being present, at least once a year to discuss their remit and any issues arising from the internal audits carried out. The Head of Internal Audit shall also be given the right of direct access to the Chairman of the Board and to the Committee

13 NOTICE AND MINUTES

13.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

13.2 Unless agreed otherwise, 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, any other person required to attend and all other non-executive directors, no later than 5 days before the date of the meeting. Supporting papers shall be sent to Committee members and attendees, as appropriate, at the same time.

13.3 The members of the Committee shall cause minutes to be made of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee.

13.4 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

13.5 The secretary shall circulate the minutes of meetings of the Committee to all members of the Committee, all members of the Board (other than to any member of the Board who has a conflict of interest) and to the Auditors.

Approved 9 December 2009