

**DEBENHAMS PLC (THE “COMPANY”)
TERMS OF REFERENCE OF THE AUDIT COMMITTEE (THE COMMITTEE) OF THE BOARD OF
DIRECTORS**

Membership

The Committee shall be appointed by the Board, on the recommendation of the nomination committee in consultation with the Chairman of the Audit Committee, from amongst the independent non-executive directors of the Company and shall consist of not less than three members. Any member who is determined no longer to be independent shall resign from the Committee. The Chairman of the Board shall not be a member of the Committee.

The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional three year periods, provided the member still meets the criteria for membership of the Committee.

At least one member of the Committee shall have been determined by the Board to have recent and relevant financial experience and with competence in accounting and/or auditing.

Secretary

The Company Secretary or his or her nominee shall act as the secretary of the Committee.

Quorum

The quorum necessary for the transaction of the business shall be two members.

Meetings

The Committee meets at least 3 times per year at appropriate times in the financial reporting and audit cycle and otherwise as required.

The Chief Financial Officer, the Director of Internal Audit & Risk Management and PricewaterhouseCoopers LLP (the “External Auditor”) are normally invited to attend meetings. Other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

The Committee meets at least twice a year with the External Auditor and once a year with the Director of Internal Audit & Risk Management separately without any executives being present.

Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company’s governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the Director of Internal Audit & Risk Management.

Notice of Meetings

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 the External Auditor or Director of Internal Audit & Risk Management if they consider it necessary.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the 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 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

Reporting Responsibilities

The secretary shall minute the proceedings and the resolutions of all Committee meetings, including the names of those present and in attendance. Minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the board unless it would be inappropriate to do so.

The Committee Chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall produce a report for inclusion in the Company's annual report, describing the work of the Committee in discharging its responsibilities. The report should include:

- The significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed;
- 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, and information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
- If the External Auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- A statement of compliance with the provisions of the Competitions & Markets Authority's Order and disclosure of the financial year in which the audit tender process is planned and why that financial year is in the best interests of the members of the Company.

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

MAIN RESPONSIBILITIES

The Committee assists the Board in fulfilling its responsibilities through the following activities:

Financial Reporting

1. 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 issues and judgements which they contain.;
2. Review any changes in accounting principles, to determine appropriateness;
3. Review the methods used to account for significant or unusual transactions where different approaches are possible.
4. Take account of the External Auditor's view and consider whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements.
5. Consider the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made.
6. Review all material information presented with the financial statements, such as the strategic report and the corporate governance report, in so far as it relates to the audit, internal controls and risk management and report any concerns to the Board.

Narrative Reporting

7. Supported by the Annual Report Compliance Committee, the Audit Committee should provide advice to the Board on whether the Company's Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Internal Controls and Risk Management Systems

8. Review the Company's internal financial controls and its internal control and risk management systems and make recommendations for improvements if required;
9. Approve any amendments to the tax policy as originally approved by the Board in October 2015.

Audit Process

10. Strengthen the independent position of both the External Auditor and the Internal Auditors by providing a direct channel of communication between them and the non-executive directors;
11. Review external and internal audit work plans to ensure they are effectively focussed and cost effective, and report periodically to the Board on significant findings;
12. Discuss with management the actions taken on problem areas identified in internal audit reports or in external audit management letters

External Audit

13. Make recommendations to the Board on the appointment, re-appointment and removal of the External Auditor and to complete a competitive tender process of the external audit at least every ten years and rotate the External Auditor at least every twenty years;

14. Develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
15. Approve the remuneration and terms of engagement of the External Auditor and the scope of the audit;
16. If the External Auditor resigns, investigate the issues leading to this and decide whether any action is required.
17. Monitor and review annually the External Auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements and the following safeguards:-
 - Seeking confirmation that the External Auditor is independent of the Company in their own professional judgement
 - Consider all the relationships between the External Auditor and the Company, including those relating to the provision of non-audit services, and whether this impairs, or appears to impair, the Auditor's judgement or independence.
 - Monitor the auditor's compliance with the relevant ethical and professional guidance on the rotation of the audit partner.
18. Review annually the External Auditor Independence Policy and monitor the policy on the engagement of the External Auditor to supply non-audit services and to report to the Board on actions / improvements needed in this area.
19. Review with the Chief Financial Officer and the External Auditor the scope and results of the external audit and any significant findings reported to the Committee in the management letter;
20. Review the representation letter before it is signed by management.
21. Consider whether there is a risk of withdrawal of the External Auditor from the market and if that should be included in the risk evaluation and planning.

Internal Audit and Control

22. Monitor and assess the role and effectiveness of the Company's Internal Audit function in the overall context of the Company's risk management system.
23. Approve (including any subsequent amendments) the terms of reference of the Risk Committee.
24. Approve the appointment and removal of the director of the internal audit and risk management function.
25. Review and assess the annual internal audit work plan and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate.
26. Ensure the Director of Internal Audit & Risk Management has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee.
27. Consider reports from management and internal audit on the system of internal control and any material control weaknesses

28. Review and monitor management's responsiveness to the internal auditor's findings and recommendations
29. Ensure the Internal Audit department is adequately resourced and keep under review its members independence and objectivity
30. Review the Company's system of internal control, including financial, operational, compliance controls and risk management prior to endorsement by the Board
31. Review corporate risk management policies and their appropriateness with internal and external auditor and executive management

Compliance, whistleblowing and fraud

32. Review arrangements by which staff may raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters ('whistleblowing'). The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Committee is to receive reports on any whistleblowing matters and there is a direct line of communication to the Chairman of the Committee
33. Review the Company's procedures for detecting fraud.
34. Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Other Matters

34. The Committee shall annually review its own performance and its terms of reference.

Authority

35. The Committee is authorised to:
 - Seek any information it requires from any employee of the Company in order to perform its duties;
 - Obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes is necessary to do so;
 - Call any employee to be questioned at a meeting of the Committee as and when required; and
 - Have the right to publish in the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.