

AEP-Plc

Terms of Reference for the Audit Committee

Purpose

The Audit Committee (the “Committee”) is established as a committee of the Board. The purpose of the Committee is to assist the Board of Directors of the Company in fulfilling its responsibilities in respect of:

- Overseeing the Group’s financial reporting process, including the internal control structure and procedures for financial reporting and monitoring the integrity and appropriateness of the Group’s financial statements;
- The manner in which the Group’s management ensures and monitors the adequacy of financial, operational and compliance internal controls and risk management processes designed to manage significant risk exposures;
- The selection, compensation, independence and performance of the Group’s external auditors; and
- The independence and performance of the Group’s internal auditors.

Composition and meetings

The Committee shall comprise not less than two non-executive Directors. Majority of the members of the Committee shall be independent, as defined in the Combined Code. All members of the Committee shall have financial literacy and at least one member shall have recent and relevant financial experience sufficient to qualify as an “audit committee financial expert”.

The Board of Directors shall appoint a Chairman from among the members from time to time. The Company Secretary or his/her nominee shall be the Secretary to the Committee.

The Committee shall meet not less than four times per annum and more frequently as circumstances require. The external auditors or internal auditor may request a meeting if they consider that one is necessary. A quorum of the Committee shall be two members.

Directors who are not members of the Committee, the Group’s senior management, the internal auditor and representatives of the external auditors shall be available to attend when required.

A member of the Committee shall attend the AGM and be prepared to respond to any shareholder questions on the Committee’s activities.

The Committee shall meet at least once each year with only the external auditors present.

Authority and responsibilities

The Committee has full authority to investigate all matters that fall within these Terms of Reference.

The Committee is accountable to the Board and shall not be entitled to sub-delegate all or any of the powers and authority delegated to it (except for the authority to pre-approve non-audit services from the external auditors which, in certain circumstances, is delegated to any one member of the Committee). In discharging its responsibilities, the Committee shall have unrestricted access to the Company’s management, books and records and shall be entitled to receive such information as it requires from any employee. All employees shall be directed to co-operate with any request made by the Committee.

The Board and external auditors are accountable to shareholders. The Committee, as a committee of the Board, is responsible for selecting the external auditors for recommendation to the Board and appointment by shareholders. The Committee is directly responsible for the compensation and oversight of the external auditors.

It is the responsibility of the management of the Group to prepare financial statements in accordance with generally accepted accounting principles and of the Group's external auditors to audit those financial statements. The Committee's responsibility is one of oversight and, in fulfilling their responsibilities, it is recognised that the members of the Committee do not represent themselves to be accountants or auditors by profession. As such, it is not the duty of the Committee or its members to conduct auditing or accounting reviews or procedures.

The Committee shall:

- Review the adequacy of these Terms of Reference and the Committee's own effectiveness annually, reporting any proposed changes to the Board for review and approval.
- Review and approve the external auditors' terms of engagement, proposed fees and planned audit scope.
- Monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant reporting judgements contained in them, assisting the Board's oversight of the Group's compliance with applicable legal and regulatory requirements in this respect.
- Prior to the filing of any audit report with the authority, review with management and the external auditors:
 - The Group's financial statements, including the operating and financial review and corporate governance statements relating to the audit and to risk management, including a review as to whether the disclosures made are properly in context;
 - All the Group's critical accounting policies and practices used, including their application and quality;
 - Findings from the interim and final audits, significant audit and accounting judgements and compliance with accounting standards, alternative treatments of financial information within GAAP that have been discussed with management, the effect of the alternative treatments on the disclosed information and the auditors preferred treatment;
 - Any schedule of unadjusted differences arising from the audit, obtaining explanations as appropriate;
 - Any disagreements between management and the external auditors regarding financial reporting for the purpose of issuing the audit report, whether or not any such issues have been resolved;
 - Material written communications between management and the auditors relating to the audit, including representation and management letters;
 - Any financial matters brought to the attention of the Company by the auditors.
- Review and discuss with management, the external auditors and the internal auditors significant business risk exposures and the processes established to identify, monitor, control and report such exposures. Consider reports prepared by the Internal Audit, the external auditors, the Company Secretary and others as the Committee may request, on the operation of internal controls within the Group, any significant risk management failures and management's responses.

- As part of the above review of business risk and internal control, annually evaluate the design and effectiveness of:
 - The internal control structure and procedures of the Group for the purposes of financial reporting;
 - Disclosure controls and procedures designed to ensure that information disclosed by the Group is properly accumulated and communicated to senior management to allow appropriate discussions regarding disclosure to take place, reporting the results of this assessment to the Board.
- Oversee, monitor and review the functioning and effectiveness of Internal Audit, including its strategic focus, activities and plans, staff numbers and qualifications and budget. Approve, as a Committee, the appointment or removal of the Head of Group Audit.
- Apply the Policy, as approved by the Committee from time to time, including, inter alia:
 - Selecting the external auditors for recommendation to the Board and appointment by shareholders and agreeing their fees and other compensation and terms of engagement;
 - Considering any questions of resignation or removal of the external auditors;
 - Pre-approving audit and non-audit services to be provided by the external auditors, in accordance with the Policy;
 - Assessing annually the qualification, expertise and resources, and independence and objectivity of the external auditors and the effectiveness of the audit process, including the cost effectiveness of the audit and reporting to the Board the results of that review;
 - Reviewing annual written statements from the external auditors that:
 - Disclose all relationships between the auditors and the Group, as set out in the Policy, and report on the performance of non-audit activities, rotation of audit partners and staff, auditor relationships, employment of former auditors, including the confirmation of auditor independence; and
 - Describe the auditors' internal quality control procedures and any material issues raised by recent internal or external reviews or investigations relevant to services provided to AEP Group, together with any remedial action taken;
- Reviewing with the external auditors any relationships or services that may impact on the independence and objectivity of the external auditors and taking, or recommend that the Board takes, appropriate action to ensure the independence of the external auditors.
- Establish, oversee and review procedures for the receipt, retention of information about and treatment of complaints relating to financial matters, internal accounting controls and auditing, including the confidential and anonymous submission by staff of concerns relating to questionable accounting and auditing matters.
- Review the scope of the annual audit and the independence and objectivity of the auditors in accordance with the Policy and is satisfied that the integrity of the audit has not been compromised. The Committee will also recommend whether a report should be given to shareholders.
- Regularly report to the Board its conclusions with respect to the matters that the Committee has considered, including identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- Consider any other matters, as may be delegated from time to time by the Board.

The foregoing list of duties is not exhaustive and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the effective performance of its oversight function.

The Committee is authorised to obtain, and determine the fees for, outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, as it considers necessary. The costs of engaging independent counsel or other advisors will be borne by the Company.