

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

ADOPTED BY RESOLUTION OF THE BOARD ON 3 SEPTEMBER 2018

1. DEFINITIONS

In this document:-

- (a) reference to the "**Board**" shall mean the Board of Directors of the Company;
- (b) reference to the "**Chairman**" shall mean the chairman of the Board;
- (c) reference to the "**Committee**" shall mean the Nominations Committee of the Board;
- (d) reference to the "**Committee Chairman**" shall mean the member appointed as the chairman of the Committee; and
- (e) reference to the "**Company**" shall mean CEPS plc.

2. MEMBERS

The members of the Committee for the time being shall be:

- Geoff Martin (Committee Chairman); and
- David Johnson

3. PURPOSE

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

4. MEMBERSHIP

- 4.1 The Committee shall comprise of at least two directors, one of which must be an independent non-executive director.
- 4.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman, the Finance Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 4.3 The Committee shall meet all Applicable Laws, including those relating to independence within the meaning of Applicable Laws. Accordingly, each member shall be independent within the meaning of Applicable Laws.
- 4.4 Appointments to the Committee are made by the Board and shall be for a period of up to three years, which may be extended for further periods of up to three years provided that the director still meets the criteria for membership of the Committee. The Board may fill vacancies in the Committee by appointments from among the Board.



4.5 The Board shall appoint the Committee Chairman who should be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members of the Committee present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board. The Chairman of the Board shall not chair the Committee when it is dealing with the matter of succession to the chairmanship of the Board.

5. SECRETARY

5.1 The Company Secretary or their nominee shall act as the secretary of the Committee.

6. QUORUM

6.1 The quorum necessary for the transaction of business shall be any 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.

7. MEETINGS

7.1 The Committee shall meet at least once a year and otherwise as required at the discretion of the Chairman or a majority of the members or as may be required by Applicable Laws.

7.2 The Committee should hold an in camera session without any senior officers present at the meeting.

7.3 The Committee shall report its determinations and recommendations to the Board.

8. NOTICE OF MEETINGS

8.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of the Committee Chairman. Otherwise the time and place for meetings may be set by resolution of the members of the Committee.

8.2 Unless otherwise agreed by consent of all members in writing, 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 five 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.

9. MINUTES OF MEETINGS

9.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.

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

9.3 Draft 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.



10. ANNUAL GENERAL MEETING

- 10.1 The Committee Chairman shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities.

11. RESOURCES AND AUTHORITY

- 11.1 The Committee has the authority to:-
- 11.1.1 engage, at the expense of the Company, independent counsel and other experts or advisors as considered advisable;
 - 11.1.2 determine and pay the compensation for any independent counsel and other experts or advisors retained by the Committee;
 - 11.1.3 conduct any appropriate investigation; and
 - 11.1.4 request any senior officer, or outside counsel for the Company, to attend any meeting of the Committee or to meet with any members of, or independent counsel or other experts or advisors to, the Committee.

12. DUTIES

- 12.1 The Committee shall review and challenge where necessary:
- 12.1.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and its subsidiary;
 - 12.1.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 12.1.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 12.1.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - 12.1.5 all material information presented with the financial statements, such as the business review/operating and financial review and any corporate governance statement (insofar as it relates to the audit and risk management).
- 12.2 If the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board of directors.
- 12.3 Where requested by the board of directors, the Committee should 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.
- 12.4 The Committee shall, unless expressly addressed by a separate risk committee comprised of independent directors or by the directors themselves:



- 12.5 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- 12.6 review and approve the statements to be included in the annual report concerning internal controls and risk management.
- 12.7 The Committee shall:
 - 12.7.1 review the adequacy and security of the Company's arrangements for its employees and contractors 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;
 - 12.7.2 review the Company's procedures for detecting fraud; and
 - 12.7.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 12.8 The Committee shall:
 - 12.8.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
 - 12.8.2 approve the appointment and removal of the head of the internal audit function;
 - 12.8.3 consider and approve the remit of the internal audit function and ensure it has necessary 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;
 - 12.8.4 ensure the internal audit function has adequate standing and is free from management and other restrictions;
 - 12.8.5 ensure the internal auditor has direct access to the chairperson of the board of directors and the chairperson of the Committee and is accountable to the Committee;
 - 12.8.6 review and assess the annual internal audit plan and ensure it is aligned to the key risks of the Company's business;
 - 12.8.7 review periodically reports on the results from the internal auditor's work;
 - 12.8.8 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
 - 12.8.9 meet the head of internal audit at least once a year, without management being present.
- 12.9 The Committee shall:
 - 12.9.1 consider and make recommendations to the board of directors, 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. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;



- 12.9.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- 12.9.3 oversee the relationship with the external auditor including (but not limited to):
 - 12.9.3.1 approval of their remuneration, including fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 12.9.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 12.9.3.3 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;
 - 12.9.3.4 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) which could adversely affect the auditor's independence and objectivity;
 - 12.9.3.5 agreeing with the board of directors a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
 - 12.9.3.6 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;
 - 12.9.3.7 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
 - 12.9.3.8 seeking to ensure co-ordination with the activities of the internal audit function; and
 - 12.9.3.9 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market on that evaluation.
- 12.10 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 meet the external auditor at least once a year, without management or chief financial officer being present, to discuss their remit and any issues arising from the audit.
- 12.11 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.



- 12.12 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 12.12.1 a discussion of any major issues which arose during the audit,
 - 12.12.2 any accounting and audit judgements,
 - 12.12.3 levels of errors identified during the audit, and
 - 12.12.4 the effectiveness of the audit.
- 12.13 Review any representation letter(s) requested by the external auditor before they are signed by management.
- 12.14 Review the management letter and management's response to the auditor's findings and recommendations.
- 12.15 Develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 12.16 The chairperson of the Committee shall report formally to the board of directors 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. The report shall include:
 - 12.16.1 the significant issues that it had considered in relation to the financial statements and how these were addressed;
 - 12.16.2 the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor.
 - 12.16.3 any other issues on which the board of directors has requested the Committee's opinion.
- 12.17 The Committee shall make whatever recommendations to the board of directors it deems appropriate on any area within its remit where action or improvement is needed.
- 12.18 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report shall include an explanation of how the Committee has addressed the effectiveness of the external and internal 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.
- 12.19 In the compiling the reports referred to in 2.15 and 2.17, 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 whether the Company is 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.
- 12.20 The Committee shall:
 - 12.20.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;



- 12.20.2 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;
- 12.20.3 give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code, the QCA's Audit Committee Guide for Small and mid-Sized Quoted Companies and the requirements of the London Stock Exchange's Rules for AIM Companies as appropriate;
- 12.20.4 be responsible for co-ordination of the internal and external auditors;
- 12.20.5 oversee any investigation of activities which are within its terms of reference; and
- 12.20.6 arrange for periodic review of its own performance and, at least once a year, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board of directors for approval.

12.21 To consider such other matters as may be requested by the board of directors.

13. REPORTING RESPONSIBILITIES

- 13.1 The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 13.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 13.3 The Committee shall produce a report to be included in the Company's Annual Report about its activities, the process used to make appointments and explain if external advice or open advertising has not been used.

14. OTHER

The Committee shall:-

- 14.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretary for assistance as required;
- 14.2 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;
- 14.3 at all times give due consideration to the provisions and recommendations in the Quoted Companies Alliance (QCA) Corporate Governance Code and the requirements of the AIM Rules for Companies, the UK Listing Authority's Disclosure Guidance and Transparency Rules and any other Applicable Laws, as appropriate; and
- 14.4 arrange for periodic reviews of its own performance and, at least annually, review its 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.

15. CHAIRMAN

The Committee Chairman should:-



- 15.1 provide leadership to the Committee and oversee the functioning of the Committee;
- 15.2 chair meetings of the Committee, unless not present, including in camera sessions, and report to the Board following each meeting of the Committee on the activities and any recommendations and decisions of the Committee and otherwise at such times and in such manner as the Committee Chairman considers advisable;
- 15.3 ensure that the Committee meets at least twice in each year and otherwise as is considered advisable;
- 15.4 in consultation with the Chairman and the members, establish dates for holding meetings of the Committee;
- 15.5 set the agenda for each meeting of the Committee with input from other members, the Chairman and any other appropriate individuals;
- 15.6 ensure that Committee materials are available to any director upon request;
- 15.7 act as liaison and maintain communication with the Chairman and the Board to co-ordinate input from the Board and to optimize the effectiveness of the Committee;
- 15.8 report annually to the Board on the role of the Committee and the effectiveness of the Committee in contributing to the effectiveness of the Board;
- 15.9 assist the members of the Committee to understand and comply with the responsibilities contained in these terms of reference;
- 15.10 foster ethical and responsible decision making by the Committee;
- 15.11 oversee the structure, composition and membership of, and activities delegated to, the Committee from time to time;
- 15.12 ensure appropriate information is provided to the Committee by the senior officers to enable the Committee to function effectively and comply with these terms of reference;
- 15.13 ensure that appropriate resources and expertise are available to the Committee;
- 15.14 ensure that the Committee considers whether any independent counsel or other experts or outside advisors retained by the Committee are appropriately qualified and independent in accordance with Applicable Laws;
- 15.15 facilitate effective communication between the members of the Committee and the senior officers;
- 15.16 attend, or arrange for another member of the Committee to attend, each meeting of the shareholders of the Company to respond to any questions from shareholders that may be asked of the Committee; and
- 15.17 perform such other duties as may be delegated to the Committee Chairman by the Committee or the Board from time to time.

16. AUTHORITY

- 16.1 The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.