

SSE plc

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

The Audit Committee (the “**Committee**”) is a committee of the SSE plc Board. The purpose of the Committee is to assist the Board in the effective discharge of its responsibilities for financial reporting, risk management and internal control, and for maintaining an appropriate relationship with the internal and external auditors of the SSE Group as a whole. In doing so, the Committee shall act independently of management and seek to safeguard the interest of the Company’s shareholders. The Committee shall carry out the duties set out in section 7 for the SSE Group.

References to “**the Company**” shall mean SSE plc.

References to “**the Directors**” shall mean Directors of SSE plc.

References to “**the Committee**” shall mean the Audit Committee.

References to “**the Board**” shall mean the board of SSE plc.

References to “**the Committee Chair**” shall mean the Chair of the Audit Committee.

References to “**the Company Chair**” shall mean the Chair of SSE plc.

References to “**the SSE Group**” shall mean SSE plc and its subsidiary companies.

1. MEMBERSHIP

- 1.1. The Committee shall be appointed by the Board following recommendation by the Nomination Committee in consultation with the Committee Chair and shall comprise of at least three independent non-Executive Directors, and where possible, include one member of the Remuneration Committee. A nominated independent non-Executive Director shall act as the Committee Chair. The Company Chair shall not be a member of the Committee.
- 1.2. Any appointments made shall ensure that at least one member of the Committee has recent and relevant financial experience, and with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.3. Only members of the Committee have the right to attend committee meetings. The Committee may at its discretion invite any other persons to attend all or part of its meetings as appropriate. The Company Chair, Finance Director, Director of Group Risk and Audit and external audit lead partner will be invited regularly to attend meetings.
- 1.4. The Committee has the right to meet the Company’s internal or external auditors without the presence of any executives. The Company’s external auditors or internal auditors may request a meeting if they consider one is necessary.
- 1.5. 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 director remains independent.
- 1.6. In the absence of the Committee Chair, the remaining members present shall elect one of their number to chair the meeting.
- 1.7. 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.

2. SECRETARY

- 2.1. The Company Secretary, the Deputy Company Secretary or a Senior Assistant Company Secretary shall act as the Secretary of the Committee.

3. NOTICE OF MEETINGS

- 3.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Committee Chair, the Committee members or at the request of the external or internal auditors if they consider it necessary.
- 3.2. 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, all other Directors, the Director of Group Risk and Audit, the external auditor and any other person required to attend, no fewer than five working days prior to the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

4. FREQUENCY OF MEETINGS

- 4.1. The Committee shall meet at least four times in each financial year and at such other times as required. Two of the meetings will be prior to the meetings of the Board at which the interim and full year results are considered.

5. MINUTES OF MEETINGS

- 5.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 5.2. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.3. Minutes of Committee meetings shall be distributed promptly to all members of the Committee and, once agreed, to all members of the Board.

6. SHAREHOLDER ENGAGEMENT

- 6.1. The Committee Chair shall attend the Annual General Meeting to answer questions which relate to the work of the Committee and, where necessary engage with shareholders on the scope of the external audit, assurance activities or any significant matters related to the Committee's areas of responsibility.

7. DUTIES

7.1. *Financial Reporting*

7.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, interim and preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain before their submission to the Board for approval having regard to matters communicated to it by the external auditor. The Committee shall review and challenge where necessary:

- 7.1.1.1. the consistency of, and any changes to, accounting policies and practices;
- 7.1.1.2. decisions requiring a major element of judgement;
- 7.1.1.3. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
- 7.1.1.4. the clarity of disclosures;

- 7.1.1.5. significant adjustments resulting from the audit;
 - 7.1.1.6. the going concern assumption;
 - 7.1.1.7. compliance with accounting standards;
 - 7.1.1.8. compliance with stock exchange and other legal requirements; and
 - 7.1.1.9. all material information presented with the financial statements, such as the Strategic Report and the Corporate Governance statement, in so far as it relates to audit, internal control and risk management.
- 7.1.2. The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.
- 7.1.3. The Committee shall review the governance and assurance arrangements for non-financial reporting, including climate related disclosures and other sustainability-related information, for example those in connection with TCFD in advance of being submitted to the Board for approval.
- 7.1.4. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

7.2. Narrative Reporting

- 7.2.1. Where requested by the Board, the Committee shall review the content of the annual report and accounts, including but not limited to the sections relating to risk management, internal controls and audit, with attention to the disclosures required under the relevant provisions in the UK Corporate Governance Code. The Committee shall 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 position, performance, business model and strategy.

7.3. Internal Control and Risk Management

The Committee shall:

- 7.3.1. Monitor and review the adequacy and effectiveness of the Company's internal control and risk management framework, policy and systems throughout the year and not solely as at the balance sheet date for the identification, assessment, management, monitoring and reporting of risks including those relating to financial matters;
- 7.3.2. receive reports on material issues and updates relating to the Internal Control Framework's effectiveness, identification and changes to material controls, control testing outcomes, monitoring and review and assurance reporting;
- 7.3.3. review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement;
- 7.3.4. review regular reports by the internal audit function arising from the Company's business risk and internal control framework;
- 7.3.5. review the annual assessment by of the effectiveness of internal control frameworks;
- 7.3.6. consider reports from the Group Treasurer, review the policies and procedures for the operation of the Treasury function, periodically review performance and exposure to treasury instruments, and review and recommend certain Bank and Borrowing facilities and similar financing arrangements, which may from time to time be specifically delegated from the Board for decision;
- 7.3.7. consider reports on the Group's tax position and policy, including ongoing HMRC enquiries, and areas of potential tax exposure; and
- 7.3.8. review annually the policy, performance and reporting of payment practices across the SSE Group.
- 7.3.9. review reports on cyber-security risk, risk management and assurance.

7.4. Compliance and Fraud

The Committee shall:

- 7.4.1. review the Company's procedure for detecting fraud;
- 7.4.2. review the Company's policy, systems and controls for the prevention of bribery and receive reports on non-compliance;
- 7.4.3. monitor and annually review the effectiveness of the Company's compliance and assurance arrangements, including level of resource, competence and relevant policy; and
- 7.4.4. review reports from the Director of Group Risk and Audit and monitor the adequacy and effectiveness of the Company's anti-financial crime systems and controls.

7.5. Internal Audit

The Committee shall:

- 7.5.1. approve the appointment and removal of the head of internal audit;
- 7.5.2. review and approve the role and mandate of the internal audit function;
- 7.5.3. approve the annual internal audit plan and ensure that it is aligned to the key risks of the business and co-ordinate the work of risk, compliance, finance, internal audit and the external audit functions where appropriate;
- 7.5.4. approve the Integrated Assurance planning process and deployment of resource across the SSE Group and monitor its progress through reports from the Director of Group Risk and Audit;
- 7.5.5. approve the internal audit charter annually to ensure that it meets the current needs of the Company including unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 7.5.6. ensure that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan;
- 7.5.7. ensure that the internal audit function has an appropriate standing and level of resource and competence to discharge its responsibilities and is free from management or other restrictions in the Company and is so able to exercise independent judgement;
- 7.5.8. meet the Director of Group Risk and Audit at least once a year, without management being present, to discuss any issues arising. The Director of Group Risk and Audit shall be given the right of direct access to the Committee, the Committee Chair, the Chief Executive and the Company Chair, in addition to the normal corporate reporting structure;
- 7.5.9. monitor and review annually the effectiveness of the Company's internal audit function in the overall context of the Company's risk management systems, and consider whether an independent third party review of internal audit function is appropriate; and
- 7.5.10. monitor and review the progress and findings of the internal audit plan, including management's responsiveness to the findings and recommendations of the internal audit function and whether these properly support the effective working of the internal audit function.

7.6. External Audit

The Committee shall oversee the Company's relations with the external auditor and in doing so will:

- 7.6.1. consider and make recommendations to the Board, to be put to the shareholders for approval at the AGM, as regards the appointment, re- appointment and removal of the Company's external auditor;
- 7.6.2. annually assess, and report to the board on, the qualification, expertise and resources, and independence of the external auditor and the effectiveness of the audit process, with a

recommendation on whether to propose to the shareholders that the external auditor be reappointed. This process shall include a report from the external auditor on their own internal quality procedures;

- 7.6.3.** consider and initiate the tendering of the external audit services contract where appropriate, and determine and oversee the selection procedure for the appointment of the external auditor, ensuring that all tendering firms have access as is necessary to information and individuals during the duration of the tendering process;
- 7.6.4.** influence the appointment of an audit engagement partner;
- 7.6.5.** investigate the issues leading to any resignation of the external auditor and decide whether any action is required;
- 7.6.6.** approve the terms of engagement of the external auditor, including reviewing and agreeing: any engagement letter issued at the start of each audit; the scope of the audit; and the remuneration to be paid in respect of audit services provided;
- 7.6.7.** meet with the external auditor at least twice each year, once at the planning stage prior to the audit and once post audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss any issues arising;
- 7.6.8.** review and approve the annual audit plan, including proposed fees, 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;
- 7.6.9.** review and discuss with the external auditor any factors that could affect audit quality and following the audit, seek confirmation of how these were addressed;
- 7.6.10.** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 7.6.10.1.** a discussion of any major issues which arose during the audit;
 - 7.6.10.2.** an evaluation of the evidence they have received in relation to each of the areas of significant judgment and a review of key accounting and audit judgements;
 - 7.6.10.3.** levels of errors identified during the audit; and
 - 7.6.10.4.** a review of the effectiveness of the audit process, including the interaction of senior management with the external auditor.
- 7.6.11.** review any representation letter(s) requested by the external auditor before they are signed by management;
- 7.6.12.** review the management letter and management's response to the external auditor's findings and recommendations; and
- 7.6.13.** keep under review the relationship with the external auditor including (but not limited to):
 - 7.6.13.1.** assessing the independence and objectivity of the external auditor including the appropriate rotation of key partners;
 - 7.6.13.2.** satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) that impair the external auditor's independence and objectivity;
 - 7.6.13.3.** recommending to the Board a policy on the employment of former employees of the Company's external auditor, and monitor the implementation of this policy;
 - 7.6.13.4.** developing and implementing a policy on the supply of non-audit services by the external auditor to avoid any threat to the external auditor's objectivity and independence, taking into account any relevant ethical guidance on the matter;
 - 7.6.13.5.** approving non-audit services in line with the policy which has been developed as appropriate; and

- 7.6.13.6. consideration of other fees which are payable to the external auditor in respect of non-audit activities and to ensure the provision of non-audit services does not impair the external auditor's independence or objectivity.

7.7. Investment Appraisal

- 7.7.1. Where requested by the Board, the Committee shall review certain major capital investment projects undertaken by the Company.

7.8. Reporting Responsibilities

- 7.8.1. The Committee Chair shall make an oral report of the findings and recommendations of the Committee at the next Board Meeting following each Committee meeting and shall also report formally to the Board on how it has discharged its responsibilities.
- 7.8.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 7.8.3. The Committee shall compile a report on its activities and how it discharged its responsibilities during the year for inclusion in the Company's annual report, including
 - 7.8.3.1. an explanation of how the Committee has addressed the effectiveness of the external audit process;
 - 7.8.3.2. the significant issues and judgements considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the external auditor;
 - 7.8.3.3. assurance as to the effectiveness of the Company's risk management and internal control framework to support the Board's declaration of the UK Corporate Governance Code on how the Board monitors and review effectiveness of these frameworks alongside the effectiveness of material controls as at the balance sheet date;
 - 7.8.3.4. the identification of material controls and review management's assessment of their design and operating effectiveness; and
 - 7.8.3.5. all other information requirements as set out in the UK Corporate Governance Code and other related guidance such as the FRC Guidance on Audit Committees as appropriate.
- 7.8.4. In compiling the reports referred to 7.8.1 and 7.8.3, the Committee should exercise judgment 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.

7.9. Other Matters

The Committee shall:

- 7.9.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 7.9.2. 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;
- 7.9.3. at least once a year review its own performance, constitution, plan of business and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- 7.9.4. establish and maintain procedures for the timely escalation to the Board of any significant weaknesses or failures in internal controls and monitor management's remediation of such issues and ensure appropriate disclosures of outstanding or recurring issues in the Annual Report work and liaise as necessary with all other Board Committees;
- 7.9.5. deal with any matters which the Board may refer to the Committee; and

7.9.6. discharge its duties in accordance with the law and regulations, including the provisions in the UK Corporate Governance Code, the Financial Reporting Council's Minimum Standard: Audit Committees and the External Audit, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules. Where deviations arise, the Committee shall provide an explanation to the Board for inclusion in the Annual Report.

8. Authority

- 8.1. The Committee has no executive powers other than the specific authorities set out in these Terms of Reference and such other authority as is from time to time delegated to it by the Board. Otherwise, it will recommend any executive action it considers necessary to the Board. The Committee does not relieve the Directors of their responsibilities in respect of Committee matters.
- 8.2. The Committee is authorised:
- 8.2.1. to seek any information it requires from any officer or employee of the company or its subsidiaries in order to perform its duties;
 - 8.2.2. to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference. The Committee will inform the Finance Director and the Board of any such action; and
 - 8.2.3. to call any member of staff to be questioned at a meeting of the Committee as and when required.

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