

## Centrica plc (the Company)

### Audit Committee (the Committee) - Terms of Reference

#### Membership and constitution

|                       |   |
|-----------------------|---|
| Membership            | At least three members, all of whom shall be independent Non-Executive Directors. Where possible, one should also be a member of the Remuneration Committee. The Chairman of the Board shall not be a member. Committee members shall be appointed by the Board, on the recommendation of the Nominations Committee, in consultation with the Committee Chairman. At least one member shall have recent and relevant financial experience and, in accordance with DTR 7.1.1R, at least one member must have competence in accounting and/or audit. The Committee as a whole shall have competence relevant to the sector in which the Company operates.   |
| Chairman              | The Board shall appoint the Committee Chairman who shall be an independent Non-Executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.   |
| Secretary             | Group General Counsel & Company Secretary (or his/her nominee).   |
| Quorum                | Two members.  |
| Attendees             | Only members of the Committee have the right to attend Committee meetings. Non-members may be invited to attend all or part of any meeting, as and when appropriate and necessary.  |
| Frequency of meetings | The Committee shall meet as and when it is deemed necessary, normally four times a year and no fewer than three meetings a year. The Committee shall meet at least twice each year with only the external auditor present and twice a year with only the Head of Internal Audit 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 Group Chief Executive, the Group Chief Financial Officer, the external auditor and the Head of Internal Audit. At least one additional meeting a year shall be held jointly with the Safety, Health, Environment, Security and Ethics Committee (the SHESEC), chaired by the Committee Chairman, to review the processes followed and judgements taken during the preceding 12 months in respect of the Group's risk framework and associated internal controls. |
| Notice of meetings    | Committee meetings shall be called by the Secretary at the request of the Committee Chairman. Notice of each meeting confirming the venue, time and date together with an agenda and papers shall be  |

circulated to Committee members and attendees, where possible, no later than five working days before the date of the meeting.

|                    |   |
|--------------------|---|
| Reporting          | Committee meeting minutes shall be circulated to the Committee members and, once approved, to the Board unless, in the opinion of the Committee Chairman, it would be inappropriate to do so. |
| Terms of Reference | These Terms of Reference may only be amended with the consent of the Board.   |

### **Purpose and Authority**

The Committee is established as a committee of the Board and is authorised by the Board to carry out the duties set out in these Terms of Reference. In fulfilling its duties, the Committee is further authorised by the Board to:

1. seek any information or assistance that it requires from any employee or contractor of the Company and all employees and contractors are directed to co-operate with any request made by the Committee;
2. have unrestricted access to Company documents and Company information;
3. have unrestricted access to the Company's Head of Internal Audit;
4. have unrestricted access to the Company's external auditor;
5. investigate or commission investigations into any activity within its terms of reference; and
6. obtain outside legal or independent professional advice in accordance with the Company's policy and secure the attendance of individuals with relevant experience and expertise at Committee meetings if it considers this necessary.

### **Organisation of the Committee**

1. The Committee Chairman shall, as a minimum, attend the Board meeting at which the annual financial statements are approved and shall attend the annual general meeting of the Company and be prepared to respond to any shareholder questions on the Committee's activities through the Chairman of the Board, if applicable;
2. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within these Terms of Reference;
3. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

4. The Committee shall, at least once a year, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness, recommend any changes it considers necessary to the Board for approval and annually report to the Board on how it has discharged its responsibilities under these terms of reference;
5. The Committee shall prepare a report about its activities and recommend it to the Board for approval and inclusion in the Company's Annual Report to shareholders. The report should include all information requirements set out in the UK Corporate Governance Code and relevant legislation and regulation; and
6. The Committee shall be provided with appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members.

### **Duties**

The Committee shall have the following responsibilities, powers, authorities and discretions:

#### **Internal Controls and Risk Management Systems**

1. Keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
2. Review the quarterly Group Risk, Assurance and Control reports;
3. Review and approve all statements in the annual report and accounts with regard to internal controls and risk management; and
4. Ensure that the Remuneration Committee takes into account the preferred risk profile of the Company when considering remuneration matters.

#### **Internal Audit**

1. Monitor and keep under review the effectiveness of the Company's internal audit function.
2. Consider and approve the appointment of the Head of Internal Audit; any dismissal of the post holder should be considered by the Committee.
3. Satisfy itself that the internal audit function has an appropriate remit with adequate resources and appropriate access to information to enable it to fulfil its mandate, and to ensure it is equipped to perform in accordance with appropriate professional standards for internal auditors. It shall also satisfy itself that the function has adequate standing and is free from management or other restrictions.
4. Review and assess annually the internal audit plan and shall be advised of the reason for any material change or delay in the planned programme.

5. Meet, without management being present, with the Head of Internal Audit regularly and at least twice a year to discuss their remit and any other matters arising.
6. Monitor the effectiveness of the internal audit function in the context of the Company's overall internal controls and risk management systems.
7. The Committee shall:
  - (i) receive a report on the results of internal audit function's work on a periodic basis; and
  - (ii) review and monitor management responsiveness to their findings and recommendations.
8. Ensure that the Head of Internal Audit has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee.

### **External Audit**

1. Oversee the Company's relationship with the external auditor.
2. Provide recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, which are subject to approval by the Company's shareholders at the annual general meeting.
3. Conduct a tender for the external audit contract at least every ten years to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms.
4. Take steps to ensure that key partners within the appointed firm are rotated from time to time in compliance with relevant ethical and professional guidance.
5. Meet without management being present with the external auditor regularly and at least twice each year to discuss their remit and any other matters arising.
6. Keep under review the relationship with the external auditor, taking into account the relevant UK professional and regulatory requirements, including (but not limited to):
  - (i) annually assessing their independence and objectivity including satisfying itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity, and agreeing a policy on the employment of former partners and employees of the external auditor;
  - (ii) assessing annually the qualifications of the external auditor, its exposure and its resources which shall include a report from the external auditor on its own internal quality procedures;
  - (iii) approval of the terms of engagement of the external auditor, including:

- (a) any engagement letter issued at the start of each audit and, as appropriate, any material changes in the external auditor's terms of engagement;
  - (b) reviewing and approving the annual audit plan; and
  - (c) agreeing and approving the audit fees which should be paid.
- (iv) assessing the effectiveness of the audit, including:
- (a) reviewing any representation letter(s) requested by the external auditor before they are signed by management;
  - (b) reviewing the management letter and management's response to the external auditor's findings and recommendations;
  - (c) reviewing the external auditor's reports which address matters identified from their audit of the year-end financial statements and review of the half yearly financial statements;
  - (d) reviewing the Company's policy on the supply of non-audit services by the external auditor and the implementation of that policy, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and
  - (e) considering the risk of withdrawal of the present external auditor from the market.

### **Financial Processing and Reporting**

1. Keep under review the consistency of accounting policies both on a year to year basis and across the Company and its subsidiaries.
2. Monitor the integrity of, review and challenge where necessary, the Company's financial statements (including the annual financial statements and their preliminary announcement and the half yearly financial statement) and any formal announcements relating to the Company's financial performance to ensure they present a fair, balanced and understandable assessment of the Company's position and prospects, taking into account:
  - (i) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (ii) decisions requiring a major element of judgement;
  - (iii) the extent to which the financial statements are affected by any unusual transactions;

- (iv) the clarity, consistency and completeness of disclosures;
  - (v) significant adjustments resulting from the audit;
  - (vi) the going concern assumption;
  - (vii) the viability statement;
  - (viii) compliance with accounting standards;
  - (ix) compliance with stock exchange and other legal and regulatory compliance requirements; and
  - (x) all material information presented with the annual financial statements, such as the strategic report and the corporate governance statement.
3. Review any profit forecasts or previously unpublished financial data to be published in any public document or any other documents as requested by the Board.
  4. Review the content of the annual financial statements and advise the Board on whether, taken as a whole, they are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
  5. Receive a report on the treasury function's operations on a periodic basis and keep under review the Group's treasury policies.
  6. Receive a report on the tax function's work on a periodic basis and keep under review the Group's tax policies.

### **Information Systems Security**

1. Ensure effective and fit for purpose information systems controls across the Group.
2. Monitor the effectiveness of information systems controls, including, where appropriate, independent testing, reviewing and assuring such controls.
3. Coordinate with the SHESEC on these matters to ensure appropriate coverage of all risks.

### **Legal and Regulatory Compliance**

1. Ensure that the Company's financial statements (including the annual financial statements and their preliminary announcement, the half yearly financial statement and any trading updates) are scrutinised in order to ensure that they comply with applicable statutory and regulatory requirements.

2. Maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime and FCA / CFTC, and other key legislative requirements and to comment on their effectiveness.
3. Coordinate with the SHESEC on these matters to ensure appropriate coverage of all risks.

### **Financial Markets**

Monitor the Group's exposure to market movements, including commodity prices and volumes, inflation, interest rates and currency fluctuations.

### **Credit and Liquidity**

Monitor the Group's management of counterparty exposures and funding uncertainties.

### **Speak Up**

Maintain oversight of the Company's arrangements for its employees to raise concerns, in confidence, about possible improprieties, including financial reporting. The Committee shall satisfy itself that that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Committee shall receive a quarterly compliance report to assist it in discharging this duty.

Approved by the Board: 23 July 2019