

PEPCO GROUP N.V.

Terms of Reference of the Audit Committee

The Audit Committee (the **Committee**) consists of non-executive directors including at least one member with recent and relevant financial experience. The Committee has a schedule of regular, structured meetings and will consult with external auditors and senior management where appropriate.

1	Constitution
	The Committee considers financial reporting and reviews the group's accounting policies, annual statements and internal controls. In particular, any major accounting issues of a subjective nature are discussed by the Committee. The Committee also reviews internal and external audit activity and the effectiveness of the risk management process; significant risk issues are referred to the board of directors for consideration
2.	Membership
	2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the board of directors, on the recommendation of the Nomination Committee in consultation with the (proposed) chair of the Committee.
	2.2 The majority of the members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The chair of the board of directors shall not be a member of the Committee.
	2.3 Only members of the Committee have the right to attend committee meetings. However, the Company's Chief Financial Officer and external audit lead partner will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
	2.4 The board of directors shall appoint the Committee chair. In the absence of the Committee chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
3.	Secretary
	The company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
4.	Quorum
	The quorum necessary for the transaction of business shall be the majority of the members being present. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
5.	Frequency of meetings
	5.1 The Committee shall meet as often as is required for its proper functioning and with meetings to be held to coincide with key dates in the financial reporting and audit cycle.
	5.2 Meetings may be conducted by telephone or video conference and decisions made by such means shall be appropriately recorded and shall have the same effect as those conducted in person.
	5.3 Resolutions of the Committee may also be adopted outside of a meeting in writing, provided that all members in office (in respect of whom no conflict of interest exists) have consented in writing to this manner of decision-making.
	5.4 Outside of the formal meeting programme, the Committee chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the company's

	governance, including the chair of the board of directors, the CEO, CFO and the external audit lead partner.
6.	Notice of Meetings
	6.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner if considered necessary.
	6.2 Unless otherwise agreed by the Committee, 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 no later than five days before the date of the meeting. Supporting papers shall be sent to committee members at the same time.
7.	Minutes of the meetings
	7.1 The secretary to the Committee shall minute the proceedings and decision of all meetings of the Committee, including recording the names of those present and in attendance.
	7.2 The secretary will ascertain, at the beginning of each meeting, the existence of any conflicts of interest not previously noted and minute them accordingly.
	7.3 Draft minutes of committee meetings shall be agreed with the Committee chair and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee chair.
8.	Annual general meeting
	The Committee chair (or in their absence another nominee of the Committee) should attend the annual general meeting to answer shareholder questions, including any questions on the Committee's activities.
9.	Duties
	The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for major subsidiary undertakings and the group as a whole.
	9.1 Financial reporting
	9.1.1 The Committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the board of directors on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
	9.1.2 In particular, the Committee shall review and challenge where necessary:
	9.1.2.1 the application of significant accounting policies and any changes to them;
	9.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
	9.1.2.3 whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements; and
	9.1.2.4 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
	9.1.3 The Committee shall review any other statements requiring board of directors' approval which contain financial information first, where to carry out a review prior to board of directors approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Dutch Financial Supervision Act (<i>Wet op het financieel toezicht</i> , the DFSA) and the EU Market Abuse Regulation.
	9.1.4 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 of directors.
	9.2 Narrative reporting

	Where requested by the board of directors, the Committee should review the content of the annual accounts and advise the board of directors on whether, taken as a whole, they give a fair view of the assets, liabilities, financial position and profit or loss of the company and its consolidated companies and whether the annual report gives a true and fair view of the situation on the balance sheet date and of developments during the financial year of the company and its consolidated companies, together with a description of the main risks facing the company on these matters as is required under the DFSA.
9.3	Internal controls and risk management systems
	The Committee shall:
	9.3.1 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;
	9.3.2 review the company's procedures for detecting fraud; and
	9.3.3 review the company's systems and controls for the prevention of bribery, including the group's Global Code of Conduct and anti-bribery policy, and receive reports on non-compliance.
9.4	Internal audit
	The Committee shall:
	9.4.1 approve the appointment or termination of appointment of the Head of Risk and Assurance;
	9.4.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
	9.4.3 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
	9.4.4 ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of those functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
	9.4.5 carry out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:
	9.4.5.1 meet with the Head of Risk and Assurance without the presence of management to discuss the effectiveness of the function
	9.4.5.2 review and assess the annual internal audit work plan;
	9.4.5.3 receive a report on the results of the internal auditor's work;
	9.4.5.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
	9.4.5.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
	9.4.6 monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor; and
	9.4.7 consider whether an independent, third party review of processes is appropriate.
9.5	External audit
	The Committee shall:

	9.5.1	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;
	9.5.2	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;
	9.5.3	if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
	9.5.4	oversee the relationship with the external auditor. In this context the Committee shall:
	9.5.4.1	approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and
	9.5.4.2	approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
	9.5.5	assess annually the external auditor's independence taking into account the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
	9.5.6	satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
	9.5.7	assess annually external auditor's functioning, qualifications, expertise and resources of and the effectiveness and quality of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
	9.5.8	seek to ensure coordination of the external audit with the activities of the internal audit function;
	9.5.9	evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
	9.5.10	meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
	9.5.11	discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
	9.5.12	review the findings of the audit with the external auditor. This shall include the following:
	9.5.16.1	a discussion of any major issues which arose during the audit;
	9.5.16.2	the auditor's explanation of how the risks to audit quality were addressed;
	9.5.16.3	key accounting and audit judgements;
	9.5.16.4	the auditor's view of their interactions with senior management; and
	9.5.16.5	levels of errors identified during the audit;
	9.5.13	review any representation letter(s) requested by the external auditor before they are signed by management;
	9.5.14	review the management letter and management's response to the auditor's findings and recommendations; and
	9.5.15	review the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.
10	Policies and Compliance	

	10.1	The Committee will review annually the group's Treasury Policy and receive reports to confirm compliance with the policy
	10.2	The Committee will review annually the group's Tax Policy and receive reports to confirm compliance with the policy
11.	Reporting responsibilities	
	11.1	The Committee chair 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 of directors on how it has discharged its responsibilities. This report shall include:
	11.1.1	the significant issues that it considered in relation to the financial statements (required under paragraph 9.1.1) and how these were addressed;
	11.1.2	its assessment of the effectiveness of the external audit process (required under paragraph 9.5.7), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
	11.1.3	Any other issues on which the board of directors has requested the Committee's opinion.
	11.2	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.
	11.3	The Committee shall compile a report on its activities to be included in the company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external 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; and all other information requirements as may be required by the Polish Corporate Governance Code
	11.4	In compiling the reports referred to in 11.1 and 11.3, the Committee should exercise judgement in deciding which of the issues it considers in relations to the financial statements are significant, but should include at least those matters that have informed the board of directors' assessment of whether the company is a going concern and the inputs to the board of directors' viability statement. 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.	Other matters	
	The Committee shall:	
	12.1	have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
	12.2	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;
	12.3	give due consideration to relevant laws and regulations, the provisions of the Polish Corporate Governance Code and any other applicable rules, as appropriate;
	12.4	be responsible for coordination of the internal and external auditors;
	12.5	oversee any investigation of activities which are within its terms of reference;
	12.6	work and liaise as necessary with all other board of directors' committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
	12.7	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 of directors.
13.	Authority	
	The Committee is authorised to:	
	13.1	seek any information it requires from any employee of the company in order to perform its duties;

	13.2	obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary so to do;
	13.3	call any employee to be questioned at a meeting of the Committee as and when required; and
	13.4	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 of directors.

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