

HICL Audit Committee – Terms of Reference

HICL INFRASTRUCTURE COMPANY LIMITED **(the “Company”)**

AUDIT COMMITTEE

MEMBERS: S Farnon (Chairman)
S Holden
F Nelson
K D Reid
C Russell

IN ATTENDANCE: The Company Secretary

The Investment Adviser

The Audit Committee has discretion as to whether or not they meet the auditors in private.

Representatives of the External Auditors shall attend meetings at the invitation of the Committee.

Board members who are not members of the Committee shall attend if invited by the Committee.

**MEMBERSHIP
AND QUORUM:**

The Committee shall be appointed by the Board in consultation with the Audit Committee Chairman and consist of at least three members from amongst the independent Non-Executive Directors of the Company.

The Chairman of the Committee shall be appointed by the Board and shall be an independent Non-Executive Director (and shall not at any time also be the Chairman of the Board).

The Board will ensure that at least one member of the Committee has recent and relevant financial experience.

A quorum shall be two members of the Committee, neither of whom should be resident nor present in the United Kingdom at the time of the meeting.

**CONSTITUTION
AND PURPOSE:**

The Committee does not hold any executive authority save as expressed herein. The Committee shall review, consider and discuss issues relating to the engagement of an External Auditor, an Internal Auditor, compliance with company law, Accounting Standards and Financial Conduct Authority regulations, publication of interim and annual results, publication of any other financial statements embodied within circulars or company announcements, financial internal control procedures and internal audit procedures. The Chairman of the Committee shall report to the Company's Board (the “Board”) on any relevant issue that, in the opinion of the Committee, should be brought to the attention of the Board members.

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In accordance with AIC Code of Corporate Governance the Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board. This requirement could be met by including the information on the Company's website.

AUTHORITY:

The Committee is authorised by the Board to:

- a. Investigate any activity within its terms of reference;
- b. Seek any information that it requires from any party;
- c. Obtain outside legal or independent professional advice at the Company's expense and such advisers may attend meetings as necessary; and
- d. To address, investigate and or report upon any financial or other operational, fraud or constitutional issues that may be brought to the attention of any Committee Member.

RESPONSIBILITY:

The responsibilities of the Committee shall be:

External Audit

- a. To consider and make recommendations to the Board concerning the appointment of the External Auditor and assess the External Auditor's independence, effectiveness and performance, in accordance with the UK Corporate Governance Code requirements, seeking information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff at appropriate intervals;
- b. To oversee the process for selecting the External Auditor and make appropriate recommendations through the Board for the shareholders to consider at the AGM;
- c. To review annually the terms of the External Auditor's engagement letter and their proposed remuneration taking into account any changes to the Group's structure and operations in the period. To make recommendations to the Board regarding the annual external audit fee;
- d. To discuss with the External Auditor, before the audit commences, the nature and scope of the audit (or its review of the interim financial statements) and to review the External Auditor's Audit Plan, quality control procedures and steps taken by the External Auditor to respond to changes in regulatory and other requirements;
- e. To review, where applicable, the External Auditor's management letter and management's response;
- f. To consider communications from the External Auditors of audit matters to those charged with governance as required by Auditing Standards (IAS 260);
- g. To approve other audit related and non-audit services prior to the engagement of the External Auditor in line with HICL's Non-Audit Services policy (see Appendix 1);

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- h. To receive and review, every six months, a summary of the External Auditor fees, both audit and non-audit, charged to HICL group companies and its investments to ensure inter alia the fee cap within HICL's Non-Audit Services policy (see Appendix 1) is not breached; and
- i. To consider putting out the audit services to tender at least once in every 10 years, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent External Auditor with those of other audit firms. The maximum term, in line with UK regulations for EU Public Interest Entities, is 20 years. The Financial Reporting Council recommends that such tender be considered on the same review cycle as for the incumbent External Audit partner.

Directors' Valuation

- a. To receive from the Investment Adviser a valuation of the Group's investment portfolio based on the agreed valuation methodology. Current frequency is twice a year;
- b. To engage a third party valuation validation expert ("Valuation Expert") on behalf of the Company who will review the draft valuation prepared by the Investment Adviser and give the Directors a private opinion on the valuation;
- c. To recommend to the Board the valuation of the Group's investment portfolio based on the work of the Investment Adviser and the opinion of the third party Valuation Expert;
- d. To review annually the terms of the Valuation Expert's engagement letter and their proposed remuneration taking into account any changes to the Group's structure and investments in the period. To make recommendations to the Board regarding the annual fee;
- e. To discuss with the Valuation Expert before the valuation commences, the key economic assumptions and the market comparables re discount rate, and any specific outputs required; and
- f. To review the Valuation Expert's opinion letter and management's response.

Fraud

- a. To review the Company's procedures for the prevention, detection and reporting of fraud; and
- b. To review the Company's procedures set out in the HICL Policies and Controls Manuals Part A and Part B for handling allegations from whistleblowers. Such procedures should permit individuals, in confidence, to raise concerns about possible improprieties, in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place to follow up the matters raised.

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Financial Statements

- a. To review, and challenge where necessary, the actions and judgements of the Investment Adviser and any other relevant entities, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:
 - i. When taken as a whole, the financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy;
 - ii. Critical accounting policies and practices and any changes in them, as they relate to the results of the Company, Subsidiaries, Joint Ventures and Associates;
 - iii. Decisions requiring a major element of judgement including the impact of adopting any acceptable alternative accounting treatment;
 - iv. The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - v. The clarity of disclosures;
 - vi. Significant adjustments resulting from the audit;
 - vii. The External Auditor's statement of unadjusted audit differences and management's explanation as to why adjustments have not been processed;
 - viii. The going concern assumption and viability statement;
 - ix. Compliance with Accounting Standards;
 - x. Compliance with Financial Conduct Authority ('FCA') and other legal requirements; and
 - xi. Compliance with the AIC Code of Corporate Governance.
- b. At the end of an audit cycle, or earlier if appropriate, to review the effectiveness of the external audit process and to report the Committee's conclusions to the Board.

Internal Controls

- a. In relation to accounting records, the valuation process and accounts preparation, the Committee will review the Company's statement on internal control systems prior to endorsement by the Board and consider whether or not there is a requirement for an internal audit process.

REPORTING PROCEDURES:

The Secretary shall circulate the minutes of the meetings to all members of the Board. The Chairman of the Committee shall attend the Board meeting at which the accounts are approved and report the key issues which, in the opinion of the Committee, should be brought to the attention of the Board in relation to the financial statements, other statutory disclosures and internal control weaknesses.

The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board for changes. The Committee shall make its terms of references available to shareholders on request and ensure that they are published on the Company's website.

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A separate section of the annual report should describe how the Audit Committee discharged its responsibilities, including:

- a. the significant issues it considered in relation to the financial statements, and how these were addressed;
- b. an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the External Auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- c. If the External Auditor provides non-audit services, an explanation of how the External Auditor's objectivity and independence is safeguarded.

The Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Committee's activities and its responsibilities.

In the event of a material disagreement between the Committee and the Board, the Committee should have the right to report on the issue to shareholders in the annual report.

Amendments may be made to the duties of the Committee by the Board from time to time.

FREQUENCY OF MEETINGS:

Meetings shall be held not less than three times a year, and where appropriate should coincide with key dates in the Company's financial reporting cycle, i.e. prior to the Board's review of the interim results announcement and the announcement of annual results.

The External Auditors may request a meeting at any time if they consider that one is necessary.

OTHER:

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 and recommend any changes it considers necessary to the Board for approval.

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Appendix 1:

HICL Audit Committee – Non-Audit Services policy

Introduction

The following policy applies to the engagement of HICL's External Auditor to supply non-audit services to HICL and its subsidiaries (the "HICL Group"). Its objective is to mitigate any risks that threaten the External Auditor's independence and objectivity, arising through the provision of non-audit services.

This policy is in line with the recommendations set out in the FRC's Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2016). In line with these recommendations and requirements, an external audit firm is only appointed to perform a service when doing so would be consistent with both the requirements and overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier.

In addition, the Ethical Standard requires an assessment of whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

The Audit Committee will review the policy on an annual basis.

Approval

Audit Committee approval is not required for those services categorised as 'Permitted audit and audit related services' where the fee is less than £20,000. These will be reported after the event to the Audit Committee.

For all other audit related and non-audit services engagements, Audit Committee approval must be obtained on a case by case basis, prior to engaging the External Auditor.

In accordance with the FRC's Guidance on Audit Committees (2016), when reviewing requests for non-audit services that are not in the 'Prohibited non-audit services' list, the Audit Committee will assess:

- Whether the provision of such services impairs the External Auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats
- The nature of the non-audit services
- Whether the skills and experience make the External Auditor the most suitable supplier of the non-audit service
- The fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the total audit fee; and
- The criteria which govern the compensation of the individuals performing the audit

Permitted audit and audit related services

Audit related services are the services listed below, excluding the statutory audit of HICL and its subsidiaries, that are largely carried out by members of the audit engagement team, and where the work involved is closely related to the work performed in the audit and the threats to External Auditor independence are clearly insignificant. Such services are still subject to the 70% cap and the approval requirements set out in this policy.

- Statutory audit of HICL's financial statements
- Statutory audits of the financial statements of subsidiary companies
- Review of the HICL's half-year report and interim financial statements
- Other permitted audit related services

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In addition, other non-audit services may be engaged where:

- They are closely related to the work performed in the external audit process and are largely carried out by members of the audit team; or
- For reasons of effectiveness or efficiency, it is advantageous to use the External Auditors because of their knowledge and expertise.

Permitted other non-audit services

Audit Committee approval must be obtained before engaging the External Auditors to provide any of the following other non-audit services;

- Due diligence related to mergers and acquisitions
- Investment circular reporting accountant engagements, including comfort letters and consents in relation to documents issued in connection with securities offerings
- Other non-audit services not prohibited by the Ethical Standard

Prohibited non-audit services

Under this policy, the following non-audit services are prohibited from being provided by HICL's External Auditor;

- Tax services relating to:
 - Payroll tax
 - Customs duties
- Services that involve playing a part in the management or decision-making of the audited entity
- Bookkeeping and preparing accounting records and financial statements
- Payroll services
- Legal services, with respect to:
 - The provision of general counsel
 - Negotiating on behalf of the audit entity
 - Acting in an advocacy role in the resolution of litigation
- Services related to the audit entity's internal audit function
- Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity
- Promoting, dealing in, or underwriting shares in the audited entity
- Human resources services with respect to:
 - Management able to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - Searching for or seeking out candidates for such positions; or
 - Undertaking reference checks of candidates for such positions.
 - Structuring the organisation design
 - Cost control

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The following non-audit services are permitted under derogation where approved by HICL's Audit Committee and where the applicable conditions are satisfied;

- Tax services relating to:
 - Preparation of tax forms
 - Identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law
 - Support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law
 - Calculation of direct and indirect tax and deferred tax
 - Provision of tax advice
- Valuation services, including valuations performed in connection with actuarial services or litigation support services

The application conditions are;

1. They have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in aggregate, on the audited financial statements;
2. The estimation of the effect on the financial statements is comprehensively documented and explained in a report to the audit committee (including consideration of the principles of independence set out in the Ethical Standard); and;
3. For the purposes of the statutory audit of the financial statements, the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

The following non-audit service is prohibited in the financial year prior to the year subject to audit;

- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems

Fees

Any arrangement with the External Auditor that includes contingent fee arrangements is not permitted.

In addition, the total fees for non-audit services provided by the External Auditor to the HICL Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company and of its controlled undertakings paid to the External Auditor in the last three consecutive financial years commencing on 1 April 2017.

Confirmation of independence

The Audit Committee will seek annually, from the External Auditor, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff.