

Northern Ireland Electricity plc

Terms Of Reference – Audit Committee

Reference to “the Company” shall mean Northern Ireland Electricity plc.

Reference to “the Committee” shall mean the Audit Committee.

Reference to “the Board” shall mean the Board of Directors of Northern Ireland Electricity plc.

1. Membership

- 1.1. The Committee shall be appointed by the Board. The Committee shall be made up of at least 2 members.
- 1.2. All members of the Committee shall be non-executive directors.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other directors, the Company Secretary, representatives from the external auditors the internal auditors and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4. The Board shall appoint the Committee Chairman.

2. Secretary

- 2.1. The Company Secretary or his/her nominee shall act as the Secretary of the Committee.

3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be 2 members.

4. Meetings

- 4.1. The Committee shall meet prior to submitting interim and annual accounts to the Board and at such other times as the Board or Chairman of the Committee shall require. It is intended that the Committee shall meet not less than 2 times per year. The Committee may meet at its discretion with each of the internal auditors and external auditors without management.

5. Notice of Meetings

- 5.1. The Secretary of the Committee shall convene meetings at the request of the Chairman of the Committee and circulate papers to be considered in advance of the meeting, or at the request of external or internal auditors if they consider it necessary.

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6. Reporting Procedures

- 6.1. The Secretary shall circulate minutes of meetings to all members of the Board. The Chairman of the Committee shall report orally to the Board on meetings of the Committee as necessary.
- 6.2. 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. Duties

The Committee should carry out the following duties:

7.1. Financial Reporting

- 7.1.1. The Committee shall monitor the integrity of the Company's financial statements, including its Annual Report and Accounts, Interim Accounts, Regulatory Accounts and any other public announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
- 7.1.2. The Committee shall review and challenge where necessary the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:
 - 7.1.2.1. critical accounting policies and practices, and any changes in them;
 - 7.1.2.2. decisions requiring a major element of judgement;
 - 7.1.2.3. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - 7.1.2.4. the clarity of disclosures;
 - 7.1.2.5. the significant adjustments resulting from the audit;
 - 7.1.2.6. the going concern assumption;
 - 7.1.2.7. compliance with accounting standards.

7.2. Internal Controls and Risk Management Systems

- 7.2.1. The Committee shall monitor and keep under review the effectiveness of the Company's internal controls and risk management system.
- 7.2.2. The Committee shall review the statements to be included in the Annual Report concerning internal controls and risk management.

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7.3. Whistleblowing

The Committee shall review the Company's arrangements for its employees 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.

7.4. Internal Audit

- 7.4.1. The Committee shall monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- 7.4.2. The Committee shall consider and approve the remit of the internal audit firm and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- 7.4.3. The Committee shall review and approve the Company's annual internal audit plan.
- 7.4.4. The Committee shall review summary reports on the Company from the internal auditors dealing with findings and recommendations, key control issues, and any other matters of specific interest to the Committee.
- 7.4.5. The Committee shall review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- 7.4.6. The internal audit firm partner shall be given the right of direct access to the Chairman of the Board or his representative and to the Committee.

7.5. External Audit

- 7.5.1. The Committee shall consider and make recommendations to the Board to be put to the shareholder for approval at the AGM in relation to the appointment and removal of the external auditors.
- 7.5.2. The Committee shall oversee the relationship with the external auditor including (but not limited to):
 - 7.5.2.1 approving the external auditor terms of engagement and the annual audit plan;
 - 7.5.2.2 reviewing the findings of the audit and any representation letters(s) requested by the external auditor before they are signed by management; and
 - 7.5.2.3 an annual assessment of the independence and objectivity of the external auditors, the scope of any disclosed relationships or services, their qualification, expertise and resources, the appropriateness of partner rotation practices and take appropriate action to ensure the continuing independence of the auditors (including the review of the provision of additional services by the external auditors).

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7.5.3. The external audit firm partner shall be given the right of direct access to the Chairman of the Board or his representative and to the Committee.

7.6. Other Matters

7.6.1. The Committee shall assist the Board in overseeing compliance with all legal and regulatory requirements.

7.6.2. The Committee shall be provided with appropriate and timely training as required.

8. Authority

8.1 Subject to any restrictions imposed by law, the Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and all employees are directed to co-operate with any request made by the Committee.

8.2 The Committee is authorised to obtain, at the Company's expense, outside legal, financial or other professional advice, when it reasonably believes it necessary to do so, on any matter within its terms of reference.

Adopted by Resolution of the Board – 2 March 2010