

**SDCL ENERGY EFFICIENCY INCOME TRUST PLC**  
(the "Company")

**TERMS OF REFERENCE FOR THE AUDIT & RISK COMMITTEE**  
(the "Committee")

**1 MEMBERSHIP**

- 1.1 All members of the Board shall be members of the Committee (the "**Members**").
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, the external auditor will be invited to attend 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.
- 1.3 Subject to the annual re-election of directors, appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, so long as members continue to be independent and meet the criteria for membership of the Committee.
- 1.4 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.

**2 SECRETARY**

- 2.1 The company secretary, or its nominee, shall act as the secretary of the Committee (the "**Committee Secretary**") and shall attend all its meetings and will ensure that the members of the Committee receive information and papers in a timely manner to enable full and proper consideration to be given to the issues to be considered at the relevant meeting.
- 2.2 Information and papers for each meeting shall also be made available to any director who is not a member of the Committee unless the Committee Chairman considers it would be inappropriate to do so.

**3 QUORUM**

- 3.1 The quorum necessary for the transaction of business shall be 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. All reasonable efforts shall be made to give notice of meetings of the Committee to all members and invitees and to arrange such meetings so that all members and invitees are able to attend.

**4 FREQUENCY OF MEETINGS**

- 4.1 The Committee shall meet as frequently as the Committee Chairman shall require and also at regular intervals to deal with routine matters and, in any event, not less than three times in each financial year.

Outside of the formal programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman and the external audit lead partner.

#### **4.2 NARRATIVE REPORTING**

- 4.2.1 Where requested by the Board, the Committee should review the content of the annual report and accounts and 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 performance, business model and strategy. The Committee should assess whether the narrative is consistent with the financial information provided.
- 4.2.2 The Committee will consider the production of a viability statement and the period over which it should be reviewed.

#### **5 MINUTES OF MEETINGS**

- 5.1 The Committee Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance. The Committee Secretary shall also ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless it would be inappropriate to do so in the opinion of the Committee Chairman.
- 5.3 Final signed copies of the minutes of the meetings of the Committee should be maintained for the Company's records, in hard and soft copy where possible.

#### **6 ANNUAL GENERAL MEETING**

- 6.1 The Committee Chairman should attend the Annual General Meeting (the "AGM") prepared to answer shareholder questions on the Committee's activities.

#### **7 DUTIES**

- 7.1 The Committee should carry out the duties below for the Company and, to the extent applicable, any of its major subsidiary undertakings (the "Group"), as appropriate.

#### **7.2 FINANCIAL REPORTING**

- 7.2.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management

statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the auditor.

- 7.2.2 The Committee shall also review any strategic reports produced, together with supplementary materials relevant to such reports, any significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 7.2.3 In particular, the Committee shall review and challenge where necessary:
  - 7.2.3.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
  - 7.2.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 7.2.3.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 7.2.3.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
  - 7.2.3.5 any significant adjustments resulting from the audit, including the responsibility to aid in the resolution of any disagreements between management and the external auditors regarding financial reporting;
  - 7.2.3.6 the appropriateness of the adoption of the going concern basis of accounting in the financial statements and the identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
  - 7.2.3.7 the appropriateness of the statement that the directors have a reasonable expectation that the Company will be able to continue its operation and meet its liabilities as they fall due over the period chosen for their assessment;
  - 7.2.3.8 compliance with stock exchange and other legal and regulatory requirements; and
  - 7.2.3.9 all material information presented with the financial statements, such as the business review or strategic report and the corporate governance statement relating to the audit and to risk management.
- 7.2.4 Where the Committee is not satisfied with any aspects of the proposed reporting by the Company, it shall report its views to the Board.

### **7.3 DIRECTOR'S VALUATION**

The Committee shall:

- 7.2.1 Receive from the Investment Manager a valuation of the Group's investment portfolio based on the agreed valuation methodology. Current frequency is twice a year;
- 7.2.2 Recommend to the Board the valuation of the Group's investment portfolio based on the work of the Investment Manager

### **7.4 INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM**

The Committee shall:

- 7.4.1 monitor and keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- 7.4.2 taking account of the Company's current position and principal risks, review and approve the statements to be included in the annual report as to how the Board has assessed the prospects of the Company (including the period over which they have done so and why it considers that period to be appropriate). Those statements should include a statement as to whether the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of such assessment and should draw attention to any qualifications or assumptions as necessary.

### **7.5 COMPLIANCE, WHISTLEBLOWING AND FRAUD**

The Committee shall:

- 7.5.1 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;
- 7.5.2 review the Company's procedures for detecting fraud;
- 7.5.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 7.5.4 review any material legal proceedings.

### **7.6 EXTERNAL AUDIT**

The Committee shall:

- 7.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re- appointment and removal of the Company's external auditor;
- 7.6.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 7.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 7.6.4 oversee the relationship with the external auditor including (but not limited to):
  - 7.6.4.1 recommendations on their remuneration, including both fees for audit and non-audit services and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
- 7.6.5 and any issues arising from the audit;
- 7.6.6 review and approve the annual audit plan 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; and
- 7.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 7.6.7.1 a discussion of any major issues which arose during the audit,
  - 7.6.7.2 key accounting and audit judgements,
  - 7.6.7.3 the Directors' valuation,
  - 7.6.7.4 levels of errors identified during the audit; and
  - 7.6.7.5 the effectiveness of the audit process.
- 7.6.8 The Committee shall also:
  - 7.6.8.1 review any representation letter(s) requested by the external auditor before they are signed by management;
  - 7.6.8.2 review the management letter and management's response to the auditor's findings and recommendations; and

7.6.8.3 develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **8 REPORTING RESPONSIBILITIES**

8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

- 8.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
- 8.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.5.4.6) and its recommendation on the appointment or reappointment of the external auditor; and
- 8.1.3 any other issues on which the Board has requested the Committee's opinion.

8.1 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

8.2 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 assessed 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 set out in the UK Corporate Governance Code (the "**UK Code**") and the AIC Code of Corporate Governance (the "**AIC Code**").

8.3 In compiling the reports referred to in **9.1** and **9.3**, the Committee should exercise judgement 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. The report to shareholder need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

## **9 RISK REPORTING RESPONSIBILITIES**

9.1 The Committee shall provide ad-hoc communication to the Board when necessary or when requested and the Chairman of the Committee shall be available to report to the Board and answer questions as appropriate. The Committee will receive periodic Risk Management Reports from the Investment Manager for its consideration and to support its assessments. Furthermore, the Committee will consider the Risk Log at each Meeting, through which specific risks are rated, mitigating factors detailed, relevant controls noted, and risk reporting outlined as applicable.

9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The Committee shall make a statement in the Company's Annual Report about its activities.

## **10 RISK GOVERNING DOCUMENTS**

- 10.1 The actions, processes and procedures of the Committee shall have due regard to the provisions and requirements of;
- 10.1.1 The Company's Risk Management Policy;
  - 10.1.2 The latest version of the Company's offering memorandum and any subsequent formally approved amendments to the investment objective and investment structure;
  - 10.1.3 The Company's investment policy;
  - 10.1.4 The UK Corporate Governance Code;
  - 10.1.5 The AIC Code of Corporate Governance;
  - 10.1.6 The Alternative Investment Manager Directive; and
  - 10.1.7 The FCA's Disclosure and Transparency Rules, including ongoing monitoring, compliance and reporting in respect of MARs, including insider lists.

## **11 THE COMMITTEE'S RISK MANAGEMENT APPROACH**

11.1 The Committee's approach to Risk Management Policy shall:

- 11.1.1 Ensure that the Company implements an effective risk governance structure and control framework which envelops key risk areas with appropriate reporting;
- 11.1.2 Consider on an annual basis and recommend for approval by the Board the Company's Risk Management Policy and risk appetite, taking account of the current and prospective macroeconomic and financial environment;
- 11.1.3 Confirm on-going regulatory compliance where appropriate;
- 11.1.4 Oversee the Company risk profile, challenging the assessment and measurement of key risks whilst monitoring the actions taken to manage them;
- 11.1.5 Review, challenge and approve, at least on an annual basis, key risk indicators, risk limits and tolerances, *inter alia*:
  - 11.1.5.1 by asset type;
  - 11.1.5.2 by geography;
  - 11.1.5.3 by counterparty exposure;
  - 11.1.5.4 technology exposure
  - 11.1.5.5 subcontractor exposure
  - 11.1.5.6 for interest rate exposure;
  - 11.1.5.7 for currency exposure;
  - 11.1.5.8 for borrowing at the Group level;
  - 11.1.5.9 tax risk management; and
  - 11.1.5.10 review the Risk Manager's Report and request additional risk mitigation actions, as deemed appropriate.

## **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 secretary 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 laws and regulations including the general duties of directors set out in the Companies Act 2006, the provisions of the UK Code and the AIC Code, and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 12.4 work and liaise as necessary with all other Board committees; and
- 12.5 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.

## **13 AUTHORITY**

The Committee is a committee of the Board and is authorised by the Board to:

- 13.1 seek any information it requires from any service provider or any consultant or other provider of services to 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 is necessary to do so;
- 13.3 to call any service provider of the Company 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 be responsible for co-ordination of the external auditor.