

# HARMONY ENERGY INCOME TRUST PLC

## AUDIT AND RISK COMMITTEE – TERMS OF REFERENCE

### Background

These Terms of Reference have been produced to accord with the relevant Principles of the AIC Code of Corporate Governance (the "**Code**") published in February 2019. The Financial Reporting Council has confirmed that AIC member companies who report against the Code will be meeting their obligations in relation to its UK Corporate Governance Code and the relevant provisions of the Listing Rules (the latter of which the Company has voluntarily elected to comply, subject to certain exceptions).

### Composition of the Committee

The Committee shall be comprised of two or more independent non-executive Directors. The Chair of the Board may be a member of the Committee (if they were independent on appointment) but may not act as the Chairperson. At least one member of the Committee should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole shall have competence relevant to the sector in which the Company operates. Members of the Committee shall be appointed by the Board, in consultation with the Chairperson. The Board shall appoint the Chairperson who shall be an independent non-executive Director. The Board may fill vacancies in the Committee by appointment from amongst the Board. Any member who fails to remain independent will step down from the Committee.

Each member of the Committee shall disclose to the Committee:

- (a) any personal financial or other interest in any matter to be decided by the Committee; or
- (b) any potential conflict of interest arising from a cross-directorship or otherwise,

and any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Committee.

### Meetings

The Committee will meet at least three times each year, to review the drafts of the annual and half-year reports of the Company, for audit planning purposes and at such other times as may be required.

Outside of the formal meeting programme, the Chair, and to a lesser extent the other Committee members, shall maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board and the external audit lead partner.

Meetings can be requested by the Auditors if they consider that to be necessary.

A sufficient interval should be allowed between Committee meetings and main Board meetings to allow any work arising from the Committee meeting to be carried out and reported to the Board as appropriate.

### **Quorum and voting arrangements**

A quorum shall be any two members including the Chairperson, or the Chairperson's nominated delegate. 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.

Members may participate in a meeting of the Committee by means of a telephone or other communication equipment.

Any matters to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting of the Committee. Any action of the Committee may also be taken by an instrument or instruments in writing, including via email or other electronic means, signed, including via the use of electronic signatures by all members of the Committee (including in counterparts) and any such action shall be as effective as if it had been decided by a majority of votes cast at a meeting of the Committee called for such purpose.

Except where he or she has a personal interest, the Chairperson shall have a casting vote.

In the absence of the Chairperson and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **Notice of meetings**

Meetings of the Committee shall be convened by the Secretary at the request of any of its members.

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 and supporting information and papers, shall be forwarded to each member of the Committee and any other person required to attend and all other non-executive directors not less than three working days prior to the date of the meeting, unless approval is required at short notice.

Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

### **Minutes of meetings**

The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The minutes of each meeting of the Committee shall be circulated promptly to all members of the Committee and, once agreed, other Directors of the Company, unless it would be inappropriate to do so in the opinion of the Chair.

A resolution in writing or via email and signed or otherwise approved via electronic signature by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

Any Director, upon request to the Secretary, may obtain copies of the Committee's agenda and minutes provided that there is no conflict of interests.

### **Attendance**

The Committee may invite other Directors to attend meetings and may request representatives of the Auditors, the AIFM, the Investment Adviser and Administrator or any other relevant person to attend meetings, but such invitees shall have no right of attendance.

### **Resources**

The Company Secretary shall act as Secretary to the Committee and should ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

The Committee shall have access to the services of the Secretary on all Committee matters, including: assisting the Chairperson in planning the Committee's work, drafting meeting agendas, maintaining minutes, drafting of material about its activities for the annual report and interim reports, collection and distribution of information and provision of any necessary practical support.

### **Shareholder engagement**

The Chairperson (or his or her nominated representative) shall attend the Company's annual general meeting or any general meeting relating to their area or responsibility prepared to respond to any shareholder questions on the Committee's activities.

The Chairperson should seek engagement with shareholders on significant matters related to their area of responsibility.

### **Authority**

The Committee is authorised to:

- (i) investigate and review any matter within its terms of reference and consider any matter the Committee deems relevant to the discharge of its duties;
- (ii) seek any information it reasonably requires from any member of the Board or a representative of any third party service provider in order to perform its duties;
- (iii) call any officers of the Company to be questioned at a meeting of the Committee as and when required;
- (iv) request a representative of a third party service provider to attend any meeting of the Committee;

- (v) obtain at the Company's expense outside legal or other professional advice on any matters within its terms of reference;
- (vi) have timely and unrestricted access to relevant documents relating to the affairs of the Company; and
- (vii) 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, including issues relating to the appointment, reappointment or removal of the Auditors.

### **Principal Responsibilities**

The principal responsibilities of the Committee are:

- (i) to monitor the integrity of the financial statements of the Company, including its annual and interim reports and any formal announcements relating to the Company's financial performance, and review and report to the Board on significant financial reporting issues and judgements contained in them having regard to matters communicated to it by the Auditors;
- (ii) to review the Company's internal financial controls and the effectiveness of the risk management and internal control systems of the Company and its third party service providers;
- (iii) evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of withdrawal of the Auditors from the market in that evaluation in the light of the Auditors' communications with the Committee;
- (iv) to make recommendations to the Board in relation to the appointment, re-appointment or removal of the Auditors;
- (v) to approve the remuneration and the terms of engagement of the Auditors;
- (vi) to ensure that the audit services contract is put out to tender such that the Company complies with the permissible period of tenure and the selection procedure set out in section 489A of the Companies Act 2006;
- (vii) to review and monitor the Auditors' independence and objectivity and the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements and the relationship with the Auditors as a whole, including any threats to the Auditors' independence and the safeguards applied to mitigate those threats and the provision of any non-audit services; and
- (viii) to develop and implement policy on the engagement of the Auditors to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, and assessment of whether non-audit services have a direct or material effect on the audited financial statements and taking into account relevant regulations and ethical guidance regarding the provision of non-audit services by the

Auditors and reporting to the board on any improvement or action required. The policy should include consideration of the following matters:

- (A) threats to the independence and objectivity of the Auditors and any safeguards in place, taking into account any relevant regulations and ethical guidance in this regard;
- (B) the nature of the non-audit services;
- (C) whether the audit firm is the most suitable supplier of the non-audit service;
- (D) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
- (E) the criteria governing compensation;

The Committee shall report to the Board on how it has discharged its responsibilities.

### **Financial Reporting**

The Committee shall:

- (i) where requested, provide advice to the Board on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the Code. Final approval of the annual report and accounts and half year report remains with the Board;
- (ii) review the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, announcements of results and related formal statements;
- (iii) consider significant accounting policies and whether the policies adopted are appropriate, any changes to them and any significant estimates and judgements;
- (iv) review the adequacy and scope of the external audit, compliance with regulatory and financial reporting requirements, the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context;
- (v) satisfy itself that the annual and half-year reports and any other significant published financial information are properly and carefully prepared and give a fair representation of the Company's affairs;
- (vi) seek clarification from the Administrator of any changes in accounting policy or treatment affecting the Company's report and accounts;

- (vii) review related information presented with the financial statements, including the operating and financial review, and corporate governance statements relating to the audit and to risk management;
- (viii) assess the basis on which the Company has been determined as a going concern and review the statements on going concern to be included in the half-year and annual reports of the Company;
- (ix) for the purposes of the longer-term viability statement, assess the prospects of the Company over such period deemed appropriate (but longer than 12 months), determine whether there is 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 assessment, and review the statements on longer-term viability to be included in the annual report of the Company;
- (x) where Board approval is required for other statements containing financial information (for example, summary financial statements, significant financial returns to regulators and release of price sensitive information), whenever practicable (without being inconsistent with any requirement for prompt reporting under any law or regulation including the Listing Rules (with which the Company has voluntarily elected to comply, subject to certain exceptions) or the Disclosure Guidance and Transparency Rules made by the Financial Conduct Authority under section 73A of the Financial Services and Markets Act 2000, as amended (the "**Disclosure Guidance and Transparency Rules**") and Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as it forms part of the domestic law of the United Kingdom by virtue of the EUWA, as amended pursuant to the Market Abuse (Amendment) (EU Exit) Regulations 2019 ("**UK MAR**")) the Committee shall review such statements first;
- (xi) review and challenge where necessary the Company's financial statements taking into account:
  - (A) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
  - (B) decisions requiring a major element of judgement;
  - (C) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (D) whether the Company has followed appropriate accounting standards and, where necessary, made appropriate estimates and judgements, taking into account the views of the Auditors;
  - (E) any significant adjustments resulting from the audit;
  - (F) compliance with applicable regulatory and legal requirements;
  - (G) compliance with best practice in the area of corporate governance;

- (H) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (I) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (in so far as it relates to the audit and to risk management);
- (xii) review the annual report in its entirety;
- (xiii) review other published financial reports or data produced by the Company from time to time;
- (xiv) review press statements and advertisements relating to financial matters prior to their issue;
- (xv) for the purposes of the viability statement, assess:
  - (A) the current position of the Company's emerging and principal risks, including those that would threaten its business model, future performance, solvency or liquidity and reputation, and how they are managed and mitigated; and
  - (B) the prospects of the Company over such period deemed appropriate; and
- (xvi) report its views to the Board where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company.

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

The Committee shall, as appropriate given the nature of the Company:

- (i) keep under review the Company's internal financial controls and review the adequacy and effectiveness of the Company's internal control and risk management systems and monitor the proposed implementation of such controls;
- (ii) review the reports on the internal controls of the Company's service providers which identify the risk management systems in place for assessing, managing and monitoring risks applicable to such service providers;
- (iii) establish a process for identifying, assessing, managing and monitoring the risks which may have a financial impact on the Company;
- (iv) review reports on the conclusions of any testing carried out by the Auditors;
- (v) carry out at least annually a robust assessment of the principal risks facing the Company;
- (vi) review and approve the statements included in the annual report in relation to internal control and the management of risk;
- (vii) review and approve statements explaining how assets have been invested with a view to spreading investment risk;

- (viii) liaise with the Board and ensure that other statements regarding the AIFM and the Investment Adviser including relevant details of its remuneration and appointment and its continued appointment, are included in the annual report;
- (ix) ensure that the annual report includes:
  - (A) the full text of the Company's published investment policy;
  - (B) a detailed and meaningful analysis of the Company's investment portfolio; and
  - (C) a summary of the valuation of the Company's investment portfolio made in accordance with the Listing Rules (with which the Company has voluntarily elected to comply, subject to certain exceptions); and
- (x) consider at least annually the frequency of the need for an independent valuation of the Company's investment portfolio.

### **Valuation Responsibilities**

The Committee shall review the semi-annual independent valuation of the Company's investment portfolio produced by the Company's valuer (or such other person as may from time to time provide such asset valuation services to the Company) before its submission to the Board, focussing in particular on:

- (i) significant adjustments from the previous independent valuation report;
- (ii) reviewing the individual valuations of each asset;
- (iii) compliance with applicable valuation methodologies, including discount rates (a) implied in the price at which comparable transactions have been announced or completed in the UK energy storage sector (if available); (b) publicly disclosed by the Company's peers in the UK energy storage sector (if available); and (c) discount rates applicable for other comparable infrastructure asset classes and regulated energy sectors;
- (iv) reviewing the findings and any recommendations or statements made by the Company's valuer; and
- (v) considering any further matters relating to the valuation of the Company's investment portfolio.

### **Whistleblowing**

The Committee shall, from time to time, review the arrangements by which staff of the AIFM, the Investment Adviser and Administrator and other service providers as the Committee sees fit may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and satisfy itself that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.



The Committee shall as appropriate given the nature of the Company:

- (vi) review the Company's procedures for detecting fraud;
- (vii) review the Company's systems and controls for the prevention of bribery and tax-evasion and receive reports on non-compliance;
- (viii) review the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (ix) review the adequacy and effectiveness of the Company's compliance function.

### **Compliance with the AIFMD**

The Committee shall discuss and agree with the AIFM the additional reporting requirements, if any, to be included in the annual report and financial statements of the Company in order to ensure compliance with the AIFMD.

### **Audit**

#### Internal

The Committee, annually, shall monitor and review the need for an internal audit function, and make an appropriate recommendation to the Board.

#### External

The Committee shall:

- (i) be responsible for making recommendations to the Board on the appointment, reappointment and removal of the Auditors and on their terms of engagement and remuneration;
- (ii) meet regularly with the Auditors (including once at the planning stage before the audit and once after the audit at the reporting stage) and meet annually with the Auditors to review the annual results and to discuss any major issues that arose during the course of the audit, including the review of any unadjusted errors in the financial statements;
- (iii) discuss with the Auditors 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;
- (iv) review the findings of the audit with the Auditors. This shall include but not be limited to, the following:
  - (A) a discussion of any major issues which arose during the audit;
  - (B) the Auditors' explanation of how the risks to audit quality were addressed;

- (C) any accounting and audit judgements;
  - (D) the Auditors' view of their interactions with the Board and the AIFM and Investment Adviser, as applicable;
  - (E) levels of errors identified during the audit; and
  - (F) the effectiveness of the audit;
- (v) review any response from the Board to the Auditors' findings and recommendations;
  - (vi) satisfy itself that the level of fee payable in respect of the audit services provided is appropriate for an effective audit to be conducted;
  - (vii) monitor the level of fees paid by the Company to the Auditors compared to the overall fee income of the firm and assess these in the context of relevant legal, professional and regulatory requirements, guidance and ethical standards;
  - (viii) review and if necessary seek amendments to the letter of representation to be given by the Board to the Auditors;
  - (ix) review and discuss with the Auditors a) their engagement letter issued at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year, and b) the scope of the audit process proposed to be undertaken by the Auditors;
  - (x) annually, assess the qualification, expertise, resources, independence and objectivity of the Auditors and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements, which shall include a report from the Auditors on its own internal quality procedures;
  - (xi) develop and recommend to the Board the Company's policy on the provision of non-audit services by the Auditors, specifying the types of non-audit work from which the Auditors are excluded and taking into account relevant ethical guidance and legal requirements regarding the provision of non-audit services;
  - (xii) consider and if appropriate approve all non-audit work to be carried out by the Auditors and, where non-audit services are provided, ensure that the relevant disclosures are made in the annual report regarding auditor objectivity, independence and the fees paid for non-audit work;
  - (xiii) satisfy itself that the Auditors are not conflicted by any work carried out for the AIFM and that any potential conflict of interest has been satisfactorily resolved;
  - (xiv) 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 when conducting audit tenders and appointing new external auditors,

ensuring that all tendering firms have access to all necessary information and individuals during the tendering process and making appropriate recommendations to the Board;

- (xv) if any Auditors resigns, investigate the issues leading to this and decide what action is required to remedy the situation;
- (xvi) satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditors and the Company (other than in the ordinary course of business) which could adversely affect the Auditors' independence and objectivity; and
- (xvii) at the end of the annual audit cycle, assess the effectiveness of the audit process including an assessment of the quality of the audit, the handling of key judgements by the Auditors, and the Auditors' response to questions from the Committee.

### **Reporting responsibilities**

The Chairperson shall report formally to the Board on the Committee's 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:

- (i) the significant issues that it considered in relation to the financial statements and how these were addressed;
- (ii) its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the Auditors, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
- (iii) any other issues on which the Board has requested the Committee's opinion.

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

The Committee shall disclose the workings of the Committee in the annual report, ensuring that the Terms of Reference for the Committee are generally available upon request or on the Company's website and that the annual report contains the Directors' explanation of their responsibility for preparing the accounts and a statement by the Auditors about their reporting responsibilities.

The Committee shall ensure disclosure in the annual report of:

- (i) the Company's investment objective and investment policy and the Company's full portfolio listing;
- (ii) those areas of decision-making reserved to the board and those over which the AIFM and/or the Investment Adviser has discretion;
- (iii) the AIFM's and the Investment Adviser's overall performance;

- (iv) ongoing charges figures and their impact on capital erosion per share class; and
- (v) relevant bank-borrowing covenant details, indicating the consequences of any material breach.

The Committee will prepare a separate section of the annual report to describe the work of the Committee in discharging its responsibilities including its membership and frequency of and attendance at its meetings. This report will include:

- (i) the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed;
- (ii) an explanation of how it has assessed the independence and effectiveness of the external audit process and its recommendation on the appointment or reappointment of the Auditors, the approach taken to the appointment or reappointment of the Auditors, and information on the length of tenure of the current audit firm and when a tender was last conducted and any contractual provisions restricting the Committee's choice of Auditors, the amount of fees paid to the Auditors for any of its services and advance notice of any retendering plans; and
- (iii) in the case of the Board not accepting the Committee's recommendation on the Auditors appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);
- (iv) if the Auditors provides non-audit services, an explanation of how the Auditors' objectivity and independence are safeguarded; and
- (v) all information requirements set out in the Code.

In compiling the reports referred to above, 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 and the inputs to the Board's 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.

### **Other matters**

The Committee shall:

- (i) have access to sufficient resources in order to carry out its duties, including access to the Secretary or the Auditors for assistance as required;
- (ii) 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;

- (iii) give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the Listing Rules (with which the Company has voluntarily elected to comply, subject to certain exceptions), the Prospectus Regulation Rules of the Financial Conduct Authority, the Disclosure Guidance and Transparency Rules, the Prospectus Regulation, the AIFMD, the UK AIFM Regime, UK MAR and any other applicable rules, as appropriate;
- (iv) oversee any investigation of activities which are within its terms of reference;
- (v) work and liaise as necessary with all other Board committees, taking particular account of the impact of any risk management and internal controls being delegated to different committees; and
- (vi) 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 for approval.

## Definitions

In these Terms of Reference, unless the context otherwise requires, the following definitions shall apply:

“**Administrator**” or “**Company Secretary**” means JTC (UK) Limited (company no. 04301763), the Company's administrator and company secretary, or such other administrator and/or company secretary appointed by the Company from time to time;

“**AIC**” means the Association of Investment Companies;

“**AIFM**” means JTC Global AIFM Solutions Limited (company no. 62964), the Company's alternative investment fund manager within the meaning of the AIFMD or such other alternative investment fund manager appointed by the Company from time to time;

“**AIFMD**” means the Alternative Investment Fund Managers Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, as implemented in the UK by UK statutory instruments and by virtue of the EUWA as amended by The Alternative Investment Fund Managers (Amendment etc.) (EU Exit) Regulations 2019;

“**Auditors**” means Ernst & Young LLP, the Company's external auditors, or such other auditors appointed by the Company from time to time;

“**Board**” means the board of Directors;

“**Chairperson**” means the chairperson of the Committee;

“**Committee**” means the Audit and Risk Committee of the Company;

“**Company**” means Harmony Energy Income Trust plc (company no. 13656587);

“**Directors**” mean the directors of the Company from time to time;

“**EUWA**” means the European Union (Withdrawal) Act 2018 (as amended);

“**Investment Adviser**” means Harmony Energy Advisors Limited (company no. 13538492) or such other investment adviser appointed by the Company from time to time;

“**Listing Rules**” means the listing rules made by the Financial Conduct Authority under section 73A of the UK Financial Services and Markets Act 2000, as amended;

“**Prospectus Regulation**” means the UK version of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market which is part of UK law by virtue of the EUWA, as amended by The Prospectus (Amendment, etc) (EU Exit) Regulations 2019;

“**Secretary**” means the secretary of the Committee; and

“**UK AIFM Regime**” means The Alternative Investment Fund Managers Regulations 2013 (as amended by The Alternative Investment Fund Managers (Amendment etc) (EU Exit) Regulations 2019) and the Investment Funds Sourcebook forming part of the FCA Handbook of Rules and Guidance as published from time to time.

Adopted on: 12 October 2021