



## **Energean Oil & Gas PLC (the “Company”)**

### Terms of Reference of the Audit and Risk Committee (the “Committee”)

(approved by the board of directors (the “Board”) with effect upon admission on 21 March 2018)

#### **1. Introduction**

- 1.1 The UK Corporate Governance Code (the “Code”) provides that *“the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditors” and “the board should establish an audit committee”*. It goes on to list the main role and responsibilities of such committee.
- 1.2 These terms of reference have been produced to identify and formalise the roles and responsibilities of the Committee for compliance with the Code.
- 1.3 Should members of the Committee need or want to consult the Code, copies can be obtained from the company secretary.

#### **2. Terms of Reference to be made Available**

- 2.1 The Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board.
- 2.2 The requirement to make this information available would be met by making such information available on request and including the terms of reference and such explanation on the Company’s website.

#### **3. Membership**

- 3.1 Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee of the Company in consultation with the chairman of the Committee (the “Committee Chairman”).
- 3.2 The Committee shall comprise at least three independent non-executive directors (provided that the independent non-executive directors shall always comprise a majority of the Committee), at least one of whom shall have recent and relevant financial experience and competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector in which it operates. The chairman of the Board or any former executive director of the Company shall not be a member of the Committee.
- 3.3 Only members of the Committee have the right to attend and vote at Committee meetings. However, the Chief Financial Officer and any head of internal audit will be invited, and other individuals such as the chairman of the Board, Chief Executive, other directors, the heads of risk and compliance and representatives from the finance function may be invited, to attend all or part of any meeting as and when appropriate and necessary.
- 3.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 3.5 In deciding chairmanship and membership of the Committee, the value of ensuring that Committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account.



- 3.6 All appointments to the Committee shall be for a period of up to three years (and may be extended by no more than two additional three year periods).
- 3.7 The Committee Chairman shall be appointed by the Board and must be an independent non-executive director.
- 3.8 The Committee Chairman shall review the Committee's membership annually, as part of the annual performance evaluation of the Committee.
- 3.9 If any member of the Committee is unable to act for any reason, the Committee Chairman may appoint any other independent non-executive director of the Company to act as his alternate.

#### **4. Secretary**

- 4.1 The company secretary or their nominee shall act as the secretary of the Committee and shall attend all of its meetings and shall prepare and circulate to members and all other non-executive directors (and invitees as appropriate) all information and papers in a timely manner to enable them to be give full and proper consideration to the issues.
- 4.2 The company secretary shall keep a record of:
  - (a) the membership and the dates of any changes to the membership of the Committee; and
  - (b) any non-audit services provided by the external auditor to enable the Company to make the necessary statement in the annual report regarding the auditors objectivity and independence.

#### **5. Quorum**

The quorum necessary for the transaction of business shall be two members (provided that at least one member has recent and relevant financial experience and competence in accounting and/or auditing). 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.

#### **6. Frequency of Meetings**

- 6.1 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. Any member of the Committee, the Company's auditors or its internal auditors may request a meeting if he/she considers that one is necessary or expedient.
- 6.2 Meetings shall be arranged to coincide with key dates within the Company's financial reporting and audit cycle where appropriate.
- 6.3 Meetings of the Committee may be conducted when the members are physically present together or as video or audio conferences.
- 6.4 The Committee Chairman shall (outside of formal meetings of the Committee) maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, Chief Executive, Chief Financial Officer, external audit lead partner and head of internal audit.



## **7. Notice of Meetings**

- 7.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 7.2 Unless otherwise agreed, 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, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **8. Committee Chairman**

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. The Committee Chairman (or chairman of the relevant meeting) shall have a casting vote, except where the he has a personal interest, on all matters in the event of an equality of votes.

## **9. Minutes of Meetings**

- 9.1 The company secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 9.2 The company secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 9.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed and finalised, to all members of the Board unless in the opinion of the Committee Chairman it would be inappropriate to do so.

## **10. Annual General Meeting**

The Committee Chairman shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **11. Duties**

The Committee should carry out the duties below for the Company, subsidiary undertakings and the group as a whole, as appropriate. In carrying out these duties, members of the Committee may also choose to consult the Code.

### **11.1 Financial Reporting**

- (a) The Committee shall (provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Disclosure Guidance and Transparency Rules (the "DTRs")) monitor and discuss with management the integrity of the financial statements of the Company, including its annual and half-yearly reports, any interim management statements, preliminary results announcements and any formal announcements relating to its financial performance, reviewing and reporting to the Board significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

- (b) The Committee shall review and challenge where necessary:
  - (i) the consistency, quality and appropriateness of, and any changes to, accounting policies both on a year on year basis and across the Company and group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the clarity and completeness of disclosure and any changes to disclosures in the Company's financial reports and the context in which statements are made, including the review of any correspondence between the Company and its external auditor;
  - (v) significant adjustments resulting from the external audit;
  - (vi) the assumptions or qualifications in support of the going concern statement including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements, and the longer term viability statement, including an assessment of the prospects of the Company and the group looking forward over an appropriate and justified period;
  - (vii) compliance with accounting standards taking into account the view of the Company's auditor;
  - (viii) compliance with UK Listing Authority and other legal and regulatory requirements including financial reporting standards; and
  - (ix) all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).
- (c) The Committee shall review disclosures in the annual report concerning the pension funds (if any) where not reviewed by the Board as a whole.
- (d) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the Board.

## 11.2 Narrative Reporting

Where requested by the Board, the Committee shall review the annual report and accounts and advise 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 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.

## 11.3 Internal Controls and Risk Management Systems

The Committee shall:

- (a) review the Company's internal financial controls and internal control systems and, at least annually, carry out a review of its effectiveness and approve the statements to be included in the annual report concerning internal control;
- (b) on behalf of the Board (which retains overall responsibility for risk management), review and monitor the Company's risk management system and, at least annually, carry out a review of its effectiveness, and review and approve the statement to be included in the annual report concerning risk

management and the principal risks facing the Company (and how they are being managed and mitigated);

- (c) on behalf of the Board, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks;
- (d) review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the Board to satisfy itself that they are operating effectively;
- (e) oversee and advise the Board on the Company's and the group's overall risk appetite, tolerance and strategy, taking account of the economic and financial environment with reference to authoritative sources that the committee considers relevant to the group's risk policies;
- (f) review the Company's capability to identify and manage new types of risk;
- (g) advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company and the group, and taking independent external advice where appropriate and available;
- (h) provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration, and annually consider how the remuneration of executives shapes their view of risk;
- (i) consider and approve the remit of the risk management function and ensure it:
  - (i) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
  - (ii) has adequate independence and is free from management and other restrictions; and
  - (iii) is able to identify and manage new risk types.
- (j) keep under review the group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
- (k) review reports on and monitor the resolution of any material breaches of risk limits or other risk or regulatory issues; and
- (l) monitor any material issues that arise or which the committee considers likely to arise in relation to the reputational risk to the Company.

#### 11.4 Viability

The Committee shall:

- (a) where requested by the Board, advise on how, taking account of the Company's current position and principal risks, the Company's prospects have been assessed, over what period and why that period is regarded as appropriate; and
- (b) advise on 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, drawing attention to any qualifications or assumptions as necessary.

## 11.5 Compliance, Whistleblowing and Fraud

The Committee shall:

- (a) 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, suggesting amendments to the Whistle-blowing Policy where appropriate. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) review annually the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery and receive reports on non-compliance;
- (d) review regular reports from the Compliance Officer on the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (e) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

## 11.6 Internal Audit

The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system, ensuring that the internal audit plan is aligned to the business's key risks;
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) consider and approve the remit of the internal audit function 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. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (d) review and assess the annual internal audit plan;
- (e) review promptly all reports on the Company from the internal auditors;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (g) ensure there is open communication between the different functions and that the internal function evaluates the effectiveness of risk, compliance and finance functions as part of its audit plan;
- (h) meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the Board and to the Committee;
- (i) carry out an annual assessment of the effectiveness of the internal audit function; and
- (j) consider whether an independent, third party review of internal audit effectiveness and processes is required.

## 11.7 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, 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;
- (b) 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 tendering process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the auditor from the market in that evaluation;
- (e) oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable a high quality audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements and ethical standards and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) and seek annually from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor taking into account ethical standards and legal requirements, then monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function;
- (f) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management (including the executive directors) being present, to discuss their remit and any issues arising from the audit;

- (g) review and approve the annual audit plan at the start of the audit cycle 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;
- (h) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - (i) a discussion of any major issues which arose during the audit and the auditor's explanation of how the risks to audit quality were addressed;
  - (ii) any accounting and audit judgements;
  - (iii) levels of errors identified during the audit; and
  - (iv) the effectiveness of the audit and the auditor's view of their interactions with senior management.
- (i) consider and review the finding of any external tax advisor to the Company or any of its subsidiaries.

The Committee shall also review the effectiveness of the audit and shall:

- (j) review any representation letter(s) requested by the external auditor before they are signed by management;
- (k) review the management letter and management's response to the auditor's findings and recommendations;
- (l) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;
- (m) ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity; and
- (n) keep under review and report to the Board on the nature and extent of non-audit services supplied by the external auditors, identifying any matters in respect of which action or improvement needed and making recommendations as to the steps to be taken.

## **12. Reporting Responsibilities**

- 12.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting of the Committee on all matters within its duties and responsibilities.
- 12.2 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report which shall include:
  - (a) details of the membership of the Committee, number of meetings held and attendance over the course of the year;
  - (b) 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 external auditor;
  - (c) confirmation that the board has carried out a robust assessment of the principal risks facing the Company, a description of those risks and an explanation as to how they are being managed and mitigated.
  - (d) an explanation of its assessment of the effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the Company and the group, auditor objectivity and independence is safeguarded) and its



recommendation on the appointment or reappointment of the external auditor, including length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans and any contractual provisions restricting the Committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;

- (e) an explanation of how the Committee has addressed the effectiveness of the internal audit process;
- (f) all other information requirements set out in the Code; and
- (g) any other issues on which the board has requested the Committee's opinion.

12.3 In compiling the above report, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the board's assessment of whether the Company is a going concern and the longer term viability statement.

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

12.5 The Chairman of the Committee (or, as a minimum, another member of the Committee) shall attend the Board meeting at which the accounts are approved.

### **13. Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations, including the general duties of directors set out in the Companies Act 2006, the provisions of the Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and DTRs as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) supervise the Company's policy in respect of tax planning;
- (f) supervise the Company's policy in respect of the financing of the Company;
- (g) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort; and
- (h) 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.

### **14. Authority**

The Committee is authorised:

14.1 by the Board to investigate any activity within its terms of reference;

14.2 to seek any information it requires from any employee or director of the Company, or any consultant or other provider of services to the Company in order to perform its duties. All employees, directors, consultants and



other service providers of services are directed to co-operate with requests for information made by the Committee including requests to attend meetings of the Committee;

- 14.3 to obtain, at the Company's expense, outside legal or other independent professional advice on any matter within its terms of reference it believes it is necessary to do so;
- 14.4 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 14.5 to 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.

Although the Committee can seek the advice and assistance of the executive management, it must ensure that this role is clearly separated from their role within the business.

\*\*\*\*\*