

## INTERNATIONAL POWER PLC

### Audit Committee Constitution and Terms of Reference

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1. The Audit Committee, which is a Committee of the International Power plc Board of Directors, shall be composed of all the independent Non-Executive Directors of the Board, one of whom shall be appointed Chairman. At least one member of the Audit Committee shall be a financial expert. The Chief Executive, the Chief Financial Officer and other officers of the Company may attend meetings by invitation. The internal and external auditors shall be entitled to attend meetings of the Audit Committee. The Company Secretary will be secretary of the Committee. These arrangements shall be without prejudice to (a) Internal Audit's right of direct access to the Chairman of the Company and to the Chairman of the Audit Committee; or (b) the external auditors' right of direct access to the Audit Committee.
2. The Committee shall meet as appropriate at least three times a year and a quorum shall be two members. The Chairman of the Committee shall report to the Board after each Committee Meeting. The role and scope of the Audit Committee shall be explained in the Annual Report and Accounts.
3. The Audit Committee shall, after having considered the views of all directors, have the following responsibilities:
  - A) Relationships with External Auditors
    - i. To review and decide on the appointment (subject to ratification by shareholders) and remuneration of external auditors.
    - ii. To review the scope of the external audit and to satisfy themselves as to its adequacy.
    - iii. To monitor the relationship between the external auditors (and its related entities) and the Group to ensure the external auditors retain their independence and objectivity, including pre-approval of non-audit services.
    - iv. To review the performance of the external auditors.
    - v. To resolve any disputes between the external auditors and Executive Management.
  - B) Financial Reporting
    - i. To review the Financial Reports and provide recommendations on them to the Board, prior to their approval by the Board, taking into account the views of the external auditors.

As part of this process, or at any appropriate time during the year, the Committee shall consider:

      - a the Group's accounting policies and recommend changes thereof if considered appropriate;

- b major judgemental areas, significant audit issues and adjustments and any departures from accounting standards and best practice.
  - c the statement made by the Directors relating to their responsibility for preparing the annual accounts, the Director's report on the effectiveness of the Group's system of internal control and their report that the business is a going concern.
  - d the external auditors evaluation of the fairness of the presentation in the annual accounts of the financial position and operating results, including the quality and adequacy of the record keeping, and accounting and financial policies and procedures
  - e any other matter arising from the audit or review brought to their attention by the external auditors.
- ii. To monitor compliance with statutory, regulatory and international stock exchange requirements for financial reporting.
  - iii. To ensure executive management have the appropriate controls over financial reporting including the review of any management letter received from the external auditors.
  - iv. It is recognised that the ultimate responsibility for approval of Financial Reports, and for overseeing that management discharge their responsibilities relating to the control over the financial and operational activities of the Group, rests with the entire Board.

"Financial Reports" includes the annual report and accounts, the 20-F, the preliminary and interim statements (including the financial information appended thereto) and any financial information sent to all shareholders or issued as listing particulars.

C. Internal Audit and Special Investigations,

- i To review the scope of the internal audit function (including its annual plan) and to satisfy themselves of its adequacy, particularly in terms of resources, reporting lines, programme and implementation of recommendations.
- ii To institute special projects, as considered appropriate. Additionally, to consider from time to time whether any special remit should be referred to the Company's external auditors or to any other external body.
- iii. To ratify the appointment of the Head of Internal Audit.

D. Risk Management Review

- i. Review all responses prepared by the Risk Committee for the Board to ensure that all relevant risks are adequately addressed in the audit process and are properly considered in the internal audit annual plan.

E. Compliance

- i. To ensure there are proper procedures to review legislative and regulatory compliance activities, including the development of appropriate procedures.
- ii. To ensure “whistle blowing” procedures are in place for receipt and treatment of complaints (including anonymous submissions from employees) regarding questionable accounting and audit matters.

4. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if considered necessary.