



Atlantica Yield plc

Terms of Reference – Audit Committee

(May 2016)

References to the "**Committee**" shall mean the Audit Committee.

References to the "**Board**" shall mean the Board of Directors.

References to the "**Company**" shall mean Atlantica Yield plc.

1. Membership

1.1 The Committee shall comprise at least three and not more than seven members. Members of the Committee shall be appointed by the Board.

1.2 Until the first anniversary of the consummation of the Company's initial public offering, a majority of the members of the Committee shall be "independent directors", as defined in Rule 5605 of the NASDAQ Stock Market ("**NASDAQ**") and shall meet the criteria for independence set forth in Rule 10A-3(b)(1) under the United States Securities Exchange Act of 1934, as amended. After such anniversary, all members of the Committee shall be independent directors. No member of the Committee shall have participated in the preparation of the financial statements of the Company or any of its subsidiaries at any time during the past three years.

1.3 All members of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement.

1.4 At least one member of the Committee shall (i) have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication and (ii) qualify as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K under the United States Securities Act of 1933, as amended.

1.5 During the first year, all members that are independent directors shall participate in meetings at which only independent directors are present; such meetings shall be

held in conjunction with regularly scheduled board meetings and shall be held at least twice per year.

- 1.6 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as the members continue to be independent.
- 1.7 The Board shall appoint the 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.

2. **Secretary**

The Company Secretary or his or her nominee shall act as the Secretary of the Committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3. **Quorum**

The quorum necessary for the transaction of business shall be a simple majority of its members.

4. **Frequency of Meetings**

The Committee shall meet at least twice a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

5. **Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened by the Chairman of the Committee. Where possible, meetings of the Committee shall be held on the same date as meetings of the Board.
- 5.2 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 two working days before the date of the meeting.

6. **Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2 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.

7. Annual General Meeting

The Committee chairman should attend the annual general meeting to answer questions from shareholders on the Committee's activities.

8. Duties

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

8.1 Financial Reporting

8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and quarterly reports, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor.

8.1.2 In particular, the Committee shall review:

- (i) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company/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 judgments, taking into account the views of the external auditor;
- (iv) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (v) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

8.1.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

8.2 Narrative Reporting

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.

8.3 Internal Controls and Risk Management Systems

The Committee shall:

- 8.3.1** keep under review the effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- 8.3.2** review and approve the statements to be included in the annual report concerning internal controls and risk management.

8.4 Compliance, Whistleblowing and Fraud

The Committee shall:

- 8.4.1** establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- 8.4.2** 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;
- 8.4.3** review the Company's procedures for detecting fraud;
- 8.4.4** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 8.4.5** review regular reports from the VP Risk & Compliance and keep under review the adequacy and effectiveness of the Company's compliance function.

8.5 Internal Audit

The Committee shall:

- 8.5.1 review and assess the annual internal audit work plan;
- 8.5.2 receive a report on the results of the internal auditor's work on a periodic basis;
- 8.5.3 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 8.5.4 meet the head of internal audit at least once a year, without the presence of management; and
- 8.5.5 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

8.6 External Audit

The Committee shall:

- 8.6.1 have direct and sole responsibility for the appointment, compensation, retention, oversight and replacement, if necessary, of the external, independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and such external auditor must report directly to the Committee;
- 8.6.2 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;
- 8.6.3 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;
- 8.6.4 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.5 oversee the relationship with the external auditor including (but not limited to):
 - (i) recommendations on their remuneration, whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an effective and 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 professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (iv) taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditor;
- (v) ensuring receipt of a formal written statement from the auditor delineating all relationships between the auditor and the Company;
- (vi) actively engaging in a dialogue with the auditor to satisfy itself that there are no relationships or services (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (vii) agreeing with the Board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;
- (viii) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (ix) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (x) seeking to ensure co-ordination with the activities of the internal audit function; and
- (xi) evaluating 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 their auditor from the market in that evaluation.

- 8.6.6** meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.6.7** 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
- 8.6.8** 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;
 - (ii) key accounting and audit judgments;
 - (iii) levels of errors identified during the audit; and
 - (iv) the effectiveness of the audit process.

The Committee shall also:

- 8.6.9** review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.10** review the management letter and management's response to the auditor's findings and recommendations; and
- 8.6.11** 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.

9. Reporting Responsibilities

- 9.1** 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:
 - 9.1.1** the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;

11. Other Matters

The Committee shall:

- 11.1** have access to sufficient resources in order to carry out its duties;
- 11.2** give due consideration to laws and regulations, including the general duties of directors set out in the Companies Act 2006 and any other applicable rules, as appropriate;
- 11.3** be responsible for co-ordination of the internal and external auditors;
- 11.4** oversee any investigation of activities which are within its terms of reference;
- 11.5** work and liaise as necessary with all other Board committees; and
- 11.6** 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.

12. Authority

The Committee is authorized to:

- 12.1** seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2** obtain, at the Company's expense, outside legal or other independent professional advice on any matter it believes it necessary to do so;
- 12.3** call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4** 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.