



Affinity Water

Your local supply, on tap

Board and Committee Terms of Reference

Affinity Water Limited

Approved by the Board on 20 November 2013



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A MATTERS RESERVED FOR THE BOARD¹

	RESERVED MATTERS	NOTES
1.	STRATEGY AND MANAGEMENT	
1.1	Responsibility for the overall leadership of the Company ² and setting the Company's values and standards.	Code ³ A.1.
1.2	Approval of the Company's strategic aims and objectives.	Code A.1
1.3	Approvals of the annual operating and capital expenditure budgets and any material changes to them.	
1.4	Oversight of the Company's operations ensuring: <ul style="list-style-type: none"> • competent and prudent management; • sound planning; • maintenance of sound management and internal control systems; • adequate accounting and other records; and • compliance with statutory and regulatory obligations to secure the carrying out of its regulated activities including the investment programme	Code C.2.
1.5	Review of performance in the light of the Company's strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.	Code B.6
1.6	Extension of the Company's activities into new business or geographic areas.	
1.7	Any decision to cease to operate all or any material part of the Company's business.	
2	STRUCTURE AND CAPITAL	
2.1	Changes relating to the Company's capital structure including reduction of capital, share issues (except under employee share plans), share buy backs including the use of treasury shares.	
2.2	Major changes to the Company's corporate structure, including, but not limited to acquisitions and disposals of shares which are material relative to the size of the Company in question (taking into account initial and deferred consideration).	

¹ Based on Guidance on Matters Reserved for the Board published by the Institute of Chartered Secretaries and Administrators in July 2013

² References to "Company", where relevant include the two financing subsidiaries of Affinity Water Limited

³ References to the Code are to the UK Corporate Governance Code September 2012 edition

	RESERVED MATTERS	NOTES
2.3	Changes to the Company's management and control structure.	
2.4	Any changes to the Company's listing or its status as a plc.	
3	FINANCIAL REPORTING AND CONTROLS	
3.1	Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results.	Code C.1. Audit DTR 4.1.-4.4.
3.2	Approval of the annual report and accounts, including the corporate governance statement and directors' remuneration report.	CA06 s414, s415 DTR 4, LR9.8. Code C.1. Audit
3.3	Approval of the dividend policy, ensuring it complies with the Company's Instrument of Appointment	
3.4	Declaration of the interim dividend and recommendation of the final dividend.	LR 9.7. A.2. DTR 6.1.13.
3.5	Approval of any significant changes in accounting policies or practices.	Code C.1. and C.3., Audit
3.6	Approval of treasury policies including foreign currency exposure and the use of financial derivatives.	
3.7	Approval of material unbudgeted capital or operating expenditures (outside pre-determined tolerances).	
4	INTERNAL CONTROLS	
4.1	<p>Ensuring maintenance of a sound system of internal control and risk management including:</p> <ul style="list-style-type: none"> • Approving the Company's risk appetite statements; • Receiving reports on, and reviewing the effectiveness of, the Company's risk and control processes to support its strategy and objectives; • Approving procedures for the detection of fraud and the prevention of bribery; • Undertaking an annual assessment of these processes; and • Approving an appropriate statement for inclusion in the annual report. 	Code C.2. C.2.1, Audit UK Bribery Act 2010
5	CONTRACTS	
5.1	Approval of major capital projects and oversight over execution and delivery.	

	RESERVED MATTERS	NOTES
5.2	Contracts which are material strategically or by reason of size, entered into by the Company or, in the case of a subsidiary, recommendations for approval in the ordinary course of business, for example bank borrowings above £1 million and acquisitions or disposals of fixed assets (including intangible assets such as intellectual property) above £1 million.	
5.3	Contracts of the Company or any subsidiary not in the ordinary course of business, for example loans and repayments above £1 million; foreign currency transactions above £1 million; major acquisitions or disposals above £1 million.	
5.4	Major investments including the acquisition or disposal of interests of voting shares of any company or the making of any takeover offer.	DTR 5.
6	COMMUNICATION	
6.1	Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives.	Code E.1.
6.2	Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.	LR 13.
6.3	Approval of all circulars, prospectuses and listing particulars.	LR 13. PR 5.5.
6.4	Approval of press releases concerning matters decided by the board.	
7	BOARD MEMBERSHIP AND OTHER APPOINTMENTS	
7.1	Changes to the structure, size and composition of the board, following recommendations from the nomination committee.	Code B.1., Nomination
7.2	Ensuring adequate succession planning for the board and senior management so as to maintain an appropriate balance of skills and experience within the Company and on the board.	Code B.2.
7.3	Appointments to the board, following recommendations by the nomination committee.	Code, B.2.1., Nomination
7.4	Selection of the chairman of the board and the chief executive.	GBE 1.4 –1.8, 1.12-1.17, 4.1-4.7 and Nomination
7.5	Appointment of any senior independent director to provide a sounding board for the chairman and to serve as intermediary for the other directors when necessary.	Code A.4.1. GBE 1.9-1.11 Nomination
7.6	Membership and chairmanship of board committees following recommendations from the nomination committee.	Nomination
7.7	Continuation in office of directors at the end of their term of office,	Nomination

	RESERVED MATTERS	NOTES
	when they are due to be re-elected by shareholders at the AGM and otherwise as appropriate.	
7.8	Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the Company, subject to the law and their service contract.	Nomination
7.9	Appointment or removal of the company secretary.	CA06 Part 12 s270-280, Code B.5.2 and GBE 2.1.-2.4.
7.10	Appointment, reappointment or removal of the external auditor to be put to shareholders for approval in general meeting, following the recommendation of the audit committee.	CA06 s489 and s491, Code C.3.2. and Audit
7.11	Appointments to boards of subsidiaries.	
8	REMUNERATION	
8.1	Determining the remuneration policy for the directors, company secretary and other senior executives.	Code D.2. and Remuneration
8.2	Determining the remuneration of the non-executive directors, subject to the articles of association and shareholder approval as appropriate.	Code D.2.3
8.3	The introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval.	Remuneration
9	DELEGATION OF AUTHORITY	
9.1	The division of responsibilities between the chairman, the chief executive and other executive directors, which should be clearly established, set out in writing and agreed by the board.	Code A.2.1.
9.2	Approval of the delegated levels of authority, including the Chief Executive's authority limits (which must be in writing).	
9.3	Establishing board committees and approving their terms of reference, and approving material changes thereto.	Code B.2.1., C.3.1. and D.2.1.
9.4	Receiving reports from board committees on their activities.	
10	CORPORATE GOVERNANCE MATTERS	
10.1	Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities.	Code B.6.

	RESERVED MATTERS	NOTES
10.2	Determining the independence of non-executive directors in light of their character, judgment and relationships.	Code B.1.1.
10.3	Considering the balance of interests between shareholders, employees, customers and the community.	CA06, s172
10.4	Review of the Company's overall corporate governance arrangements.	
10.5	Receiving reports on the views of the Company's shareholders to ensure that they are communicated to the board as a whole.	Code E.1.1.
10.6	Authorising conflicts of interest where permitted by the Company's articles of association.	CA06 s177
11	POLICIES	
11.1	Approval of policies, including: <ul style="list-style-type: none"> • Code of Conduct; • Share dealing code; • Bribery prevention policy; • Whistleblowing policy; • Health and safety policy; • Environment and sustainability policy; • Human resources policy; • Communications policy including procedures for the release of price-sensitive information; • Corporate social responsibility policy; and • Charitable donations policy. 	Code A.1
12	OTHER	
12.1	The making of political donations.	
12.2	Approval of the appointment of the Company's principal professional advisers.	
12.3	Prosecution, commencement, defence or settlement of litigation, or an alternative dispute resolution mechanism involving above £1 million or being otherwise material to the interests of the Company.	
12.4	Approval of the overall levels of insurance for the Company including directors' & officers' liability insurance and indemnification of directors.	Code A.1.3.
12.5	Major changes to the rules of the Company's pension scheme, or changes of trustees or, when this is subject to the approval of the Company, changes in the fund management arrangements.	
12.6	Any decision likely to have a material impact on the Company from any perspective, including, but not limited to, financial, operational, strategic or reputational.	

	RESERVED MATTERS	NOTES
12.7	This schedule of matters reserved for board decision.	
13	REGULATORY MATTERS	
13.1	Changes to the Company's Instrument of Appointment.	
13.2	Key performance indicators (financial, operational, customer services) on a quarterly basis,	
13.3	Approval of key regulatory submissions to OFWAT, the Drinking Water Inspectorate, Environment Agency, Competition Commission and similar agencies and bodies.	
13.4	Approval of undertakings provided by the Company's ultimate controller(s) under Condition P of the Instrument of Appointment.	
13.5	Approval of transactions and arrangements between the Company and associated businesses	
13.6	Approval of guarantees and loans to/on behalf of associated businesses, subject to Ofwat approval.	
13.7	Approval of matters likely to impact on reputation including (without limitation) fluoridation policy issues, major operational issues (e.g., temporary use ban), prosecutions by EA, DWI or similar, significant litigation, possible regulatory and enforcement action	
13.8	Changes to Charges Schemes and Tariffs	
13.9	Approval of financial and other material statements to Ofwat (including land disposal certificates)	
13.10	Appointment, re-appointment or removal of the Reporter	
13.11	Approval of statements required by the Company's Instrument of Appointment	

B **AUDIT COMMITTEE TERMS OF REFERENCE⁴**

1. MEMBERSHIP

- 1.1 The committee shall comprise at least three members. Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee.
- 1.2 At least two members of the committee shall be independent non-executive directors at least one of whom shall be the committee chairman and shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The chairman of the board shall not be a member of the committee. C.3.1 of the Code provides that in smaller companies the company chairman may be a member of, but not chair, the committee provided (s)he was independent on appointment as chairman.
- 1.3 Only members of the committee have the right to attend committee meetings. However, the external auditor and finance director will be invited to attend meetings of the committee 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.
- 1.4 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 members continue to be independent.
- 1.5 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

- 2.1 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 two members, including at least one independent non-executive director.

4. FREQUENCY OF MEETINGS

- 4.1 The committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit.

5. NOTICE OF MEETINGS

- 5.1 Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner or head of internal audit if they consider it necessary.

⁴ The terms of reference are based on the Model Terms of Reference for audit committees published by the Institute of Chartered Company Secretaries in June 2013.

- 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 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.

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 shareholder questions on the committee's activities.

8. DUTIES

The committee should carry out the duties below for the Company.

8.1 Financial reporting

- 8.1.1 The committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, 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.
- 8.1.2 In particular, the committee shall review and challenge where necessary:
- 8.1.2.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company;
 - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 8.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - 8.1.2.5 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 adequacy and 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 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;
- 8.4.2 review the Company's procedures for detecting fraud;
- 8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.4.4 review regular reports from the Head of Governance and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- 8.4.5 review regular reports from the Head of Governance and keep under review the adequacy and effectiveness of the Company's compliance function.

8.5 Internal audit

The committee shall:

- 8.5.1 approve the appointment or termination of appointment of the head of internal audit;
- 8.5.2 review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.5.3 ensure the internal auditor has direct access to the board chairman and to the committee chairman, and is accountable to the committee;
- 8.5.4 review and assess the annual internal audit work plan;
- 8.5.5 receive a report on the results of the internal auditor's work on a periodic basis;
- 8.5.6 review and monitor management's responsiveness to the internal auditor's findings and recommendations;

- 8.5.7 meet with the head of internal audit at least once a year without the presence of management; and
- 8.5.8 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 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;
- 8.6.2 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;
- 8.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4 oversee the relationship with the external auditor including (but not limited to):
 - 8.6.4.1 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;
 - 8.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 8.6.4.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - 8.6.4.4 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) which could adversely affect the auditor's independence and objectivity;
 - 8.6.4.5 agreeing with the board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;
 - 8.6.4.6 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;
 - 8.6.4.7 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;
 - 8.6.4.8 seeking to ensure co-ordination with the activities of the internal audit function; and

- 8.6.4.9 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.
- 8.6.5 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;
- 8.6.6 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
- 8.6.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 8.6.7.1 a discussion of any major issues which arose during the audit;
 - 8.6.7.2 key accounting and audit judgements;
 - 8.6.7.3 levels of errors identified during the audit; and
 - 8.6.7.4 the effectiveness of the audit process.

The committee shall also:

- 8.6.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 8.6.10 develop and implement 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;
 - 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.4.7) and its recommendation on the appointment or reappointment of the external auditor; and
 - 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 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 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 addressed 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 Code.

- 9.4 In the 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 shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

10. OTHER MATTERS

The committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 10.2 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;
- 10.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 10.4 be responsible for co-ordination of the internal and external auditors;
- 10.5 oversee any investigation of activities which are within its terms of reference;
- 10.6 work and liaise as necessary with all other board committees
- 10.7 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.

11. AUTHORITY

The committee is authorised to:

- 11.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 11.3 call any employee to be questioned at a meeting of the committee as and when required; and
- 11.4 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.

C REMUNERATION COMMITTEE TERMS OF REFERENCE⁵

1. MEMBERSHIP

- 1.1 The committee shall comprise at least three members, at least two of whom shall be independent non-executive directors and at least two of whom shall be non-executive directors appointed by investors . The chairman of the board may also serve on the committee as an additional member and chairman of the committee if he or she was considered independent on appointment as chairman. Members of the committee shall be appointed by the board, on the recommendation of the nomination committee and in consultation with the chairman of the remuneration committee.
- 1.2 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.3 Appointments to the committee are made by the board and shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the chairman of the board, if he or she is a member of the committee) continue to be independent.
- 1.4 The board shall appoint the committee chairman who shall be an independent non-executive director. 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 who would qualify under these terms of reference to be appointed to that position by the board. The chairman of the board shall not be chairman of the committee.

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 the issues.

3. QUORUM

The quorum necessary for the transaction of business shall be two at least one of whom shall be an independent non-executive director.

4. MEETINGS

The committee shall meet at least twice a year and otherwise as required.

5. NOTICE OF MEETINGS

- 5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chairman.
- 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 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.

⁵ The terms of reference are based on the Model Terms of Reference for remuneration committees published by the Institute of Chartered Company Secretaries in June 2013.

6. MINUTES OF MEETINGS

- 6.1 The secretary shall minute the proceedings and resolutions of all committee meetings, including 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 in the opinion of the committee chairman it would be inappropriate to do so.

7. ANNUAL GENERAL MEETING

The committee chairman should attend the annual general meeting to answer any shareholder questions on the committee's activities.

8. DUTIES

The committee should carry out the duties detailed below for the Company, as appropriate.

The committee shall:

- 8.1 Have responsibility for setting the remuneration policy for all executive directors and the Company's chairman, including pension rights and any compensation payments. The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. No director or senior manager shall be involved in any decisions as to their own remuneration.
- 8.2 Recommend and monitor the level and structure of remuneration for senior management.
- 8.3 In determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Code and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long strategic term goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company.
- 8.4 When setting remuneration policy for directors, review and have regard to pay and employment conditions across the Company, especially when determining annual salary increases.
- 8.5 Review the on-going appropriateness and relevance of the remuneration policy.
- 8.6 Within the terms of the agreed policy and in consultation with the chairman and/or chief executive, as appropriate, determine the total individual remuneration package of each executive director, the Company chairman and other designated senior executives including bonuses, incentive payments and share options or other share awards.
- 8.7 Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the board.

- 8.8 Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.
- 8.9 Approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions in Schedule A of the Code).
- 8.10 Review the design of all share incentive plans for approval by the board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors, company secretary and other designated senior executives and the performance targets to be used.
- 8.11 Determine the policy for, and scope of, pension arrangements for each executive director and other designated senior executives.
- 8.12 Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 8.13 Oversee any major changes in employee benefits structures throughout the Company.
- 8.14 Agree the policy for authorising claims for expenses from the directors.
- 8.15 Work and liaise as necessary with all other board committees.

9. REPORTING RESPONSIBILITIES

- 9.1 The committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 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 ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are fulfilled and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM. If the committee has appointed remuneration consultants, the annual report of the Company's remuneration policy should identify such consultants and state whether they have any other connection with the Company.
- 9.4 Through the chairman of the board, ensure that the Company maintains contact as required with its principal shareholders about remuneration.

10. OTHER MATTERS

The committee shall:

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.
- 10.3 Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non listed companies and

formation and operation of share schemes including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.

- 10.3 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.

11. AUTHORITY

The committee is authorised by the board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

D NOMINATION COMMITTEE TERMS OF REFERENCE⁶

1. MEMBERSHIP

- 1.1 The committee shall comprise at least four directors at least two of whom shall be independent non-executive directors.
- 1.2 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.3 Appointments to the committee are made by the board and shall be for a period of up to three years, which may be extended for further periods of up to three-years, provided the director still meets the criteria for membership of the committee.
- 1.4 The board shall appoint the committee chairman who should be either the chairman of the board or an independent non-executive director. 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 from those who would qualify under these terms of reference to be appointed to that position by the board. The chairman of the board shall not chair the committee when it is dealing with the matter of succession to the chairmanship.

2. SECRETARY

The company secretary or his or her nominee shall act as the secretary of the committee.

3. QUORUM

The quorum necessary for the transaction of business shall be two at least one of whom must be an independent non-executive director.

4. FREQUENCY OF MEETINGS

The committee shall meet at least twice a year and otherwise as required.

5. NOTICE OF MEETINGS

- 5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chairman.
- 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 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.

6. MINUTES OF MEETINGS

- 6.1 The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.

⁶ The terms of reference are based on the Model Terms of Reference for nomination committees published by the Institute of Chartered Company Secretaries in June 2013

- 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 in the opinion of the committee chairman it would be inappropriate to do so.

7. ANNUAL GENERAL MEETING

The committee chairman should attend the annual general meeting to answer any shareholder questions on the committee's activities.

8. DUTIES

The committee should carry out the duties below for the Company.

The committee shall:

- 8.1 regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the board and make recommendations to the board with regard to any changes
- 8.2 give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future
- 8.3 keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- 8.4 keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates
- 8.5 be responsible for identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise
- 8.6 before any appointment is made by the board, evaluate the balance of skills, knowledge, experience and diversity on the board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the committee shall, as appropriate
 - 8.6.1 use open advertising or the services of external advisers to facilitate the search
 - 8.6.2 consider candidates from a wide range of backgrounds
 - 8.6.3 consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the board, including gender, taking care that appointees have enough time available to devote to the position
- 8.7 for the appointment of a chairman, the committee should prepare a job specification, including the time commitment expected. A proposed chairman's other significant commitments should be disclosed to the board before appointment and any changes to the chairman's commitments should be reported to the board as they arise.
- 8.8 prior to the appointment of a director, the proposed appointee should be required to disclose any other business interests that may result in a conflict of interest and be required to report any future business interests that could result in a conflict of interest
- 8.9 ensure that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings

- 8.10 review the results of the board performance evaluation process that relate to the composition of the board
- 8.11 review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties
- 8.12 work and liaise as necessary with all other board committees.

The committee shall also make recommendations to the board concerning

- 8.13 formulating plans for succession for both executive and non-executive directors and in particular for the key roles of chairman and chief executive
- 8.14 suitable candidates for the role of senior independent director
- 8.15 membership of the audit and remuneration committees, and any other board committees as appropriate, in consultation with the chairman of those committees
- 8.16 the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the board in the light of knowledge, skills and experience required
- 8.17 the re-election by shareholders of directors under the annual re-election provisions of the Code or the retirement by rotation provisions in the Company's articles of association, having due regard to their performance and ability to continue to contribute to the board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the board (particularly in relation to directors being re-elected for a term beyond six years)
- 8.18 any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract
- 8.19 the appointment of any director to executive or other office

9. REPORTING RESPONSIBILITIES

- 9.1 the committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities
- 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 produce a report to be included in the Company's annual report about its activities, the process used to make appointments and explain if external advice or open advertising has not been used. Where an external search agency has been used, it shall be identified in the annual report and a statement made as to whether it has any connection with the Company
- 9.4 the report referred to in 9.3 above should include a statement of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.

10. OTHER MATTERS

The committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
- 10.2 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
- 10.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate
- 10.4 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.

11. AUTHORITY

The committee is authorised by the board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.