

**MATTERS RESERVED FOR THE BOARD OF DIRECTORS  
OF NORTHUMBRIAN WATER LIMITED  
(the “Board”)**

**A. Reserved matters to be dealt with by the Board as a whole (“Section A Reserved Matters”)**

The matters in this Section A must be dealt with by the Board as a whole, either in meeting or by written resolution or other written confirmation. These matters cannot be dealt with by the NWL Standing Committee or the NWL Executive Committee.

1. Approval of the Company’s corporate strategy, in conjunction with Northumbrian Water Group Limited (“NWGL”).
  - (i) The Board will set the broad direction of the Company and will review and approve:
    - (a) the vision and mission for the Company to guide and set the pace for its operations and development;
    - (b) the values and aspirations to be promoted throughout the Company;
    - (c) the Company objectives designed to match mission and values and to form the basis of corporate strategy; and
    - (d) Company policies, ensuring their enforcement, and the availability of resources for their implementation.
  - (ii) The Board will direct the Company’s strategy and structure to ensure its survival and prosperity and to stimulate its renewal, regeneration and growth by:
    - (a) reviewing and evaluating opportunities and risks in the external environment and strengths, weaknesses and risks in the people, products, services and other assets of the Company;
    - (b) determining strategic options, selecting those to be pursued and allocating resources appropriately;
    - (c) reviewing and confirming the suitability and effectiveness of corporate and business strategies to achieve Company objectives;
    - (d) monitoring the ability of the Company’s senior management to identify strategic implications of unexpected change and supporting the management in so doing; and
    - (e) identifying major organisation factors likely to affect implementation of strategy and approving the Company’s organisation structure.
  - (iii) The Board will monitor implementation of strategy, policies and plans, and performance of legal and fiduciary obligations by:
    - (a) determining performance measures and systems with which the Board will monitor implementation of strategy, policies, plans and performance of legal and fiduciary obligations;
    - (b) reviewing internal control arrangements and procedures to ensure appropriate quality standards of monitoring information;
    - (c) monitoring the implementation of and compliance with policies, strategies and operating plans; and
    - (d) communicating with senior management on their successes and failures and ensuring appropriate rewards and sanctions are implemented.

(iv) Business Strategy

The Board will:

- (a) propose its plans to the board of directors of NWGL for contributing to the achievement of the corporate strategy of the Group;
- (b) consider and approve the following plans each year:
  - Medium Term Plan, being the profit and loss account, balance sheet and cash flow up to the end of the current regulatory review period;
  - Financial Budget, being the annual budget for profit and loss account, balance sheet and cash flow;
  - Capital Plan, being the annual capital budget plus plan to the end of the current regulatory review period; and
  - Disposals Plan, being details of major disposals planned for the next two years.
- (c) identify the issues which are key to the achievement of strategy, approve policies and monitor progress in these areas;
- (d) monitor progress against annual business plans;
- (e) maintain and operate an effective and adequate system of internal financial and management controls with review procedures so that the system is revised to meet the developing needs of the business; and
- (f) ensure that the Company complies with the Group's policies, where the policies have been provided to the Company in writing, provided that this does not cause the Company to breach its obligations to Ofwat or to any other regulator, or cause any director to breach his or her legal duties as a director.

2. Approval of the annual operating and capital expenditure budgets and any material changes to them.
3. Approval of financial statements.  
*[Final closure of these statements may be delegated to an ad hoc committee when the substance has been approved by the Board.]*
4. Approval of and declaration of any interim dividend(s) and recommendation of the final dividend.
5. Approval of any significant change in accounting policies or practices.
6. Terms of reference of the Chairman, Chief Executive Officer and other executive directors of the Company and (where applicable) NWL Subsidiaries.
7. Establishing Board committees, approving their terms of reference and any material changes thereto; and approving the membership and chairmanship of NWL Board committees.  
*[The Company Secretary is authorised to make minor changes from time to time with the approval of the Chairman and Chief Executive Officer.]*
8. Appointment or removal of directors of the Company.
9. Appointment or removal of the Company Secretary.

**B. Reserved matters which may be dealt with by the NWL Standing Committee ("Section B Reserved Matters")**

The matters in this Section B will be dealt with by the Board as a whole but (when this is not practicable) may be dealt with by the NWL Standing Committee.

1. Changes in the Company's capital structure or its status as a limited company including reduction of capital and share buy backs.
2. Approval of all acquisitions or disposals of interests of more than 5% in the voting shares of any company or the making of any take-over bid by the Company or any subsidiary of the Company.
3. Approval of all proposed joint ventures and mergers, and all acquisitions and disposals of businesses.

4. Approval of all new external loan facilities.
5. Remuneration of auditors (when such power has been delegated to the Board by the shareholders) and recommendations for appointment or removal of auditors.
6. Prosecution, commencement, defence or settlement of litigation, or an alternative dispute resolution mechanism when the gross sum involved exceeds £0.5 million or is otherwise material to the interests of the Company and/or any subsidiary of the Company.
7. Review and approval of the Ofwat June Return and Condition F:6A.2A Certificate prior to submission to Ofwat.
8. Treasury policies including foreign exchange exposures.
9. Approval of the overall levels of insurance for the Company and its subsidiaries including directors' and officers' liability insurance.
10. Nominations for appointments to Boards of subsidiary companies and terms of engagement to be determined in accordance with specific delegations to each subsidiary company.
11. Terms and conditions of all directors and senior executives of the Company and any subsidiary of the Company.  
*[The NWL Remuneration Committee will make recommendations on these matters].*
12. Changes to the Company's management and control structure.
13. Risk management strategy.
14. Financial Approval Rules.
15. Health and Safety policy.
16. Equal Opportunities policy.
17. Sustainable development policy.
18. Environment policy.
19. Policy on charitable donations.
20. Political expenditure policy.

**C. Reserved matters which may be dealt with by the NWL Executive Committee ("Section C Reserved Matters")**

The matters in this Section C may be dealt with by the NWL Executive Committee between Board meetings (e.g. where a matter requires consideration and approval prior to the next scheduled Board meeting).

Approval of projects, contracts, contract re-authorisations, asset disposals and customer compensation payments within the limits or thresholds set out in paragraph 6 of the Terms of Reference of the NWL Executive Committee (which can be found at Part 3 of this NWL RMs and ToRs Document).

**TERMS OF REFERENCE**  
**OF**  
**THE EXECUTIVE COMMITTEE**  
**(being a Committee of the Board of Directors of Northumbrian Water Limited)**  
**(the “Committee”)**

In these terms of reference:

“Board” means the board of directors of the Company.

“Company” or “NWL” means Northumbrian Water Limited.

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1. The purpose of the Committee is to take all necessary decisions concerning the Company between Board meetings.
  2. The members of the Committee shall be the Chief Executive Officer of the Company and the Chief Financial Officer of the Company. Others may be invited to attend all or part of any meeting.
  3. Subject to any other decision of the Board from time to time, the Committee shall have full power and authority to carry on the business of the Company in all respects and to deal with any matters ancillary thereto, except if it concerns a Section A or Section B Reserved Matter set out in Part 2 of the NWL RMs and ToRs Document (which only the Board or, in certain cases, the NWL Standing Committee has the authority to deal with), and subject to the restrictions in paragraphs 6 and 7, reporting to the Board on its decisions.
  4. The quorum shall be two members.
  5. The Committee shall have authority to make specific, time-limited delegations of its authority to such persons, sub-committees or other bodies as it sees fit, but shall not make general delegations of its authority.
  6. The Committee may consider and approve the following:
    - (a) any Category 1 project or sub-programme of any value, if referred to it by the Asset Policy Steering Group or requested by the Board;
    - (b) any Category 2 project or sub-programme with a value or, in the case of a re-authorisation, a revised value, between £5 million and £10 million;

A “**Category 1 project or sub-programme**” is a project and/or sub-programme which is part of the approved regulatory plan and is to meet mandatory regulatory obligations, legal duties or routine planned maintenance needs; and a “**Category 2 project or sub-programme**” is a project and/or sub-programme that does not constitute a Category 1 project, including a non-appointed and commercial project, ‘spend to save’ project or any atypical discretionary project.

- (c) any efficiency project with a value between £1 million and below £5 million;
- (d) any contract with a value over the term being awarded or, in the case of a contract re-authorisation, a revised value, between £5 million and below £10 million;
- (e) any income-generating contract with a value between £2 million and below £10 million;
- (f) any disposal of assets with a current market value between £1 million and below £2 million; and
- (g) any customer compensation payment exceeding £50,000 (in the case of “Plus 2” individual payments), exceeding £200,000 (in the case of total compensation for an incident, or exceeding £100,000 (in the case of community compensation).

If the relevant value or revised value exceeds the limits stated above the matter must be referred to the Board of Northumbrian Water Group Limited or its Standing Committee or its Executive Committee (as is appropriate) for consideration.

7. If the Committee considers that any decision it proposes to make could have a significant impact on the Company and/or the Group (including, but not limited to, financial, operational, strategic or reputational), it shall consult the Chairman of the Company or, in his absence, any two non-executive directors, who may require the Committee to refer such decision to the Standing Committee or the Board. The Committee shall also consult in this manner in respect of any proposals to plead guilty in criminal proceedings, or to settle any civil litigation and the Chairman or non-executive directors may, similarly, require the decision to be referred to the Standing Committee or Board.
8. Minutes of Committee meetings shall (as soon as reasonably practicable) be circulated to all members of the Committee and to the Chairman and all members of the Board.
9. The Company Secretary or his nominee shall act as Secretary to the Committee.

**TERMS OF REFERENCE  
OF  
THE STANDING COMMITTEE  
(being a Committee of the Board of Directors of Northumbrian Water Limited)  
(the “Committee”)**

In these terms of reference:

“Board” means the Board of Directors of the Company.

“Company” or “NWL” means Northumbrian Water Limited.

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1. The purpose of the Committee is to take all necessary decisions concerning the Company between Board meetings.
  2. The members of the Committee shall be all directors of the Company.
  3. Subject to any other decision of the Board from time to time, the Committee shall have full power and authority to carry on the business of the Company in all respects and to deal with any matters ancillary thereto, except if it concerns a Section A Reserved Matter set out in Part 2 of the NWL RMs and ToRs Document (which only the Board has the authority to deal with), reporting to the Board on its decisions.
  4. The quorum shall be one executive director and one non-executive director, but papers will be sent to all directors.
  5. All decisions taken by the Committee shall be reported to the next available meeting of the Board.
  6. The Company Secretary or his nominee shall act as Secretary to the Committee.