

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

In these terms of reference:

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

“**Northumbrian Water Group**” means Northumbrian Water Group Limited and its direct and indirect subsidiaries (including NWL Group Companies).

“**NWGL**” means Northumbrian Water Group Limited.

“**NWGL ARA Committee**” means the Audit, Risk and Assurance Committee of the Board of directors of NWGL.

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

“**NWL Group**” means the Company and each of its direct and indirect subsidiaries.

“**Sub-Committees**” means the NWL Assurance Sub-Committee and the NWL Risk & Compliance Sub-Committee.

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**1. Purpose of the Committee**

The purpose of the Committee is to assist both executive and non-executive directors of the NWL Group to discharge their individual and collective duties and responsibilities in relation to:

- (i) ensuring the financial and accounting systems of the NWL Group are providing accurate and up-to-date information on its current position;
- (ii) ensuring the NWL Group’s published financial statements represent a true and fair reflection of this position;
- (iii) ensuring the integrity of the NWL Group’s regulatory reporting systems and the accuracy of its regulatory reports; and
- (iv) assessing the integrity of its internal financial controls.

The Committee will be assisted (as the Committee considers appropriate from time to time) in discharging its responsibilities by the Sub-Committees.

**2. Membership and Attendance**

- (i) The Committee shall be appointed by the NWL Board, in consultation with the Committee Chairman, and shall comprise at least three members (to include at least two of the three non-executive directors nominated by the Company as independent non-executive directors for the purposes of its Instrument of Appointment (each an “**NWL INeD**”)) and at least one shareholder appointed non-executive director. At least one member of the Committee shall have recent and relevant financial experience. The NWL Board may co-opt members who are not directors of the Company.
- (ii) The Committee shall ensure that the risk of any conflict of interest that might be seen to give rise to an unacceptable influence is minimised.
- (iii) The NWL Board shall appoint the Committee Chairman (who shall be an NWL INeD). In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting. A shareholder has the right to nominate an observer(s) to attend all or any part of Committee meetings.
- (iv) Only the members of the Committee and nominated observers have the right to attend Committee meetings, but the Committee may ask the Chairman of the Company, its Chief Executive Officer, its Chief Financial Officer and any relevant senior managers to attend all or part of meetings either regularly or by invitation.
- (v) The Committee shall invite a representative of the external auditors and the Internal Audit Manager to attend meetings on a regular basis.

### 3. Secretary

The Company Secretary or his nominee shall act as the Secretary of the Committee (the “**Secretary**”).

### 4. Quorum

The quorum necessary for the transaction of business shall be two members, at least one of whom shall be a shareholder appointed non-executive director of the Company (or his alternate) and at least one of whom shall be an NWL INeD. 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.

### 5. Frequency of Meetings

The Committee shall meet not less than three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

### 6. Notice of Meetings

- (i) Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- (ii) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers (where relevant), shall be sent to each member of the Committee and any other person required to attend, no fewer than five days prior to the date of the meeting.

### 7. Reports and Minutes of Meetings

- (i) The Chairman of the Committee will report to the NWL Board the main items of business addressed at each meeting of the Committee.
- (ii) The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- (iii) The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- (iv) Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman and, once approved, to all other members of the NWL Board and to the NWGL Board unless it would be inappropriate to do so in the opinion of the Chairman of the Committee.

### 8. Duties

- (i) Internal Control

The Committee shall review:

- the effectiveness of the NWL Group’s financial reporting and internal control policies and procedures; and
- the NWL Group’s statement on internal control systems to be included in the annual report, prior to endorsement by or on behalf of the NWL Board.

- (ii) Internal Audit

- (a) The Committee shall:

- approve the Internal Audit Charter and shall be advised of the planned programme of internal audits and the reason for any change or delay in the programme;
- review summary reports from the Internal Auditors;
- monitor the resourcing and effectiveness of the Internal Audit function and update, as necessary, the mission and scope of work of the internal audit function, as contained in the Internal Audit Charter;
- review the self-certification reports on internal financial controls and statements on internal financial controls of NWL prior to endorsement by the NWL Board; and
- monitor management’s responsiveness to the internal auditor’s findings and recommendations.

- (b) The Internal Audit Manager shall have the right of direct access to the Chairman of the Committee and the Committee shall meet with the Internal Audit Manager at least once a year without the presence of management.
- (iii) External Audit
- (a) The Committee shall meet with the external auditors at least twice each year, once at the planning stage, to consider the scope of the audit, and once post audit at the reporting stage, to review the effectiveness of the audit process at the end of the annual audit cycle, and shall ensure that any audit representation letter(s), auditor's management letter(s) and management's responses are reviewed before they are signed by management.
- (b) The Committee shall keep under review and oversee the relationship with external auditors including (but not limited to):
- the independence, objectivity, effectiveness, qualifications, expertise and resources of the external auditors;
  - the consideration of audit fees as well as any other fees which are payable to auditors in respect of non-audit activities;
  - developing and implementing policy on the engagement of the external auditor to supply non-audit services and monitoring the provision and scope of any such services (to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter);
  - discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made regarding the NWL Group's internal auditing standards; and
  - approval of their terms of engagement, including remuneration, the engagement letter issued at the start of each audit and the scope of the audit.
- (c) The Committee shall consider all significant problems and reservations arising from the interim and final audits and any matters the external auditor may wish to discuss (in the absence of management where appropriate).
- (iv) Financial Reporting
- (a) The Committee shall consider any significant change in accounting policies or practices of the NWL Group.
- (b) The Committee shall monitor the integrity of the financial statements of the NWL Group, reviewing and reporting to the NWL Board on significant reporting issues and judgements which they contain having regard to matters communicated to it by the external auditors. In particular, the Committee shall review and challenge where necessary:
- decisions requiring significant judgement;
  - the extent to which the financial statements are affected by any unusual transactions;
  - the clarity and completeness of disclosures;
  - significant adjustments resulting from the audit;
  - the going concern assumption; and
  - compliance with accounting standards and any other requirements, as appropriate.
- (c) The Committee shall also review significant financial returns to regulators.
- (d) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the NWL Group, it shall report its views to the NWL Board.

(v) Reporting Responsibilities

- (a) The Committee shall, at least once a year, review the relationship with the internal and external auditors.
- (b) The Committee shall make whatever recommendations to the NWL Board it deems appropriate.

(vi) Other Matters

The Committee shall:

- give due consideration to the requirements of any relevant laws, regulations, accounting standards and best practice guidelines from time to time in force;
- be aware of and, where appropriate, approve the principal documents regularly submitted to Ofwat (provided that where it is not practicable for the Committee to review and approve any such documents then they may be approved and signed by any director of the Company on its behalf or by such director as Ofwat may require);
- oversee any investigation of activities which are within its terms of reference and act as a forum of last resort;
- from time to time review its own performance and, at least annually, review its constitution and Terms of Reference (and those of the Sub-Committees) to ensure it (and they) are operating effectively;
- ensure its members are trained and kept up to date in matters such as the regulatory framework of the NWL Group, the main principles of and developments in financial reporting and related company law and the role of internal and external auditing; and
- have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

**9. Authority**

The Committee:

- is authorised to instigate and oversee any investigation into any matter within its terms of reference;
- is authorised to seek any information it requires from any employee of the NWL Group in order to perform its duties;
- is authorised to obtain, at the NWL Group's expense, outside legal or other professional advice on any matters within its terms of reference;
- is authorised to call any employee of the NWL Group to be questioned at a meeting of the Committee as and when required; and
- has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the NWL Board.

**TERMS OF REFERENCE**  
**OF**  
**THE ASSURANCE SUB-COMMITTEE**  
**(being a Sub-Committee of the Audit Committee)**  
**(the “Sub-Committee”)**

In these terms of reference:

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

“**Northumbrian Water Group**” means Northumbrian Water Group Limited and its direct and indirect subsidiaries (including the NWL Group).

“**NWGL**” means Northumbrian Water Group Limited.

“**NWL Audit Committee**” means the Audit Committee of the NWL Board.

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

“**NWL Group**” means the Company and its direct and indirect subsidiaries.

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**1. Purpose of the Committee**

The purpose of the Sub-Committee is to assist the NWL Audit Committee to discharge its responsibilities to the NWL Board in relation to:

- (i) ensuring the financial and accounting systems of the NWL Group are providing accurate and up-to-date information on its current position;
- (ii) ensuring the NWL Group's published financial statements represent a true and fair reflection of this position;
- (iii) ensuring the integrity of the NWL Group's regulatory reporting systems and the accuracy of its regulatory reports; and
- (iv) assessing the integrity of its internal financial controls.

**2. Membership and Attendance**

- (i) The Sub-Committee shall be appointed by the NWL Audit Committee, and shall comprise at least two members, each of whom shall be non-executive directors nominated by the Company as independent non-executive directors for the purposes of its Instrument of Appointment. At least one member of the Sub-Committee shall have recent and relevant financial experience. The NWL Board may co-opt members who are not directors of the Company.
- (ii) The Sub-Committee shall ensure that the risk of any conflict of interest that might be seen to give rise to an unacceptable influence is minimised.
- (iii) The NWL Audit Committee shall appoint the Sub-Committee Chairman. In the absence of the Sub-Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- (iv) Only members of the Sub-Committee have the right to attend Sub-Committee meetings, but the Sub-Committee may ask the Chairman of the Company, its Chief Executive Officer, its Chief Financial Officer, and any relevant senior managers to attend all or part of meetings either regularly or by invitation.
- (v) The Sub-Committee shall ask a representative of the external auditors and the Internal Audit Manager to attend meetings as appropriate.

**3. Secretary**

The Company Secretary or his nominee shall act as the Secretary of the Sub-Committee (the “**Secretary**”).

#### **4. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Sub-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 Sub-Committee.

#### **5. Frequency of Meetings**

- (i) The Sub-Committee shall meet not less than three times a year and at such other times as the Chairman of the Sub-Committee shall require.
- (ii) Wherever practicable, meetings will be arranged to tie in with the publication of the NWL Group's financial statements (if applicable).

#### **6. Notice of Meetings**

- (i) Meetings of the Sub-Committee shall be called by the Secretary of the Sub-Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- (ii) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers (where relevant), shall be sent to each member of the Sub-Committee and any other person required to attend, no fewer than five days prior to the date of the meeting.

#### **7. Reports and Minutes of Meetings**

- (i) The Chairman of the Sub-Committee will report to the NWL Audit Committee the main items of business addressed at each meeting of the Sub-Committee.
- (ii) The Secretary shall minute the proceedings and decisions of all meetings of the Sub-Committee, including recording the names of those present and in attendance.
- (iii) The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- (iv) Minutes of Sub-Committee meetings shall be circulated to all members of the Sub-Committee and to the Chairman and, once approved, to all other members of the Audit Committee, the NWL Board and the NWGL Board unless it would be inappropriate to do so in the opinion of the Chairman of the Sub-Committee.

#### **8. Duties**

- (i) Internal Control

The Sub-Committee shall support the NWL Audit Committee in reviewing:

- the effectiveness of the NWL Group's financial reporting and internal control policies and procedures; and
- the NWL Group's statement(s) on internal control systems to be included in the annual report, prior to endorsement by or on behalf of the NWL Board.

- (ii) Financial Statements

The Sub-Committee shall keep under review the consistency and appropriateness of accounting policies both on a year to year basis and across the NWL Group.

- (iii) Tax Affairs

- (a) The Sub-Committee shall approve, keep under review and monitor compliance with the Northumbrian Water Group Tax Strategy in so far as it relates to the NWL Group.
- (b) The Chief Financial Officer of the Company, having delegated the task of applying the Senior Accounting Officer (SAO) rules to the Northumbrian Water Group Tax Department, shall be authorised to sign appropriately worded certificate(s) for submission to HMRC by the appropriate SAO certification dates on behalf of the NWL Group.

(iv) Reporting Responsibilities

The Sub-Committee shall make whatever recommendations to the NWL Audit Committee it deems appropriate.

(v) Other Matters

The Sub-Committee shall:

- support the Audit Committee in discharging its responsibilities under paragraph 8(vi) of the terms and reference of the Audit Committee;
- give due consideration to the requirements of any relevant laws, regulations, accounting standards and best practice guidelines from time to time in force;
- co-ordinate the internal and external auditors;
- review the NWL Group's procedures for handling allegations from whistleblowers and report any such allegations to the NWL Board;
- oversee any investigation of activities, which are within its Terms of Reference;
- from time to time review its own performance, and at least annually, review its constitution and Terms of Reference to ensure it is operating effectively;
- ensure its members are trained and kept up to date in matters such as the regulatory framework of the NWL Group, the main principles of and developments in financial reporting and related company law and the role of internal and external auditing; and
- have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

**9. Authority**

The Sub-Committee is authorised:

- to instigate and oversee any investigation into any matter within its terms of reference;
- to seek any information it requires from any employee of the NWL Group in order to perform its duties;
- to obtain, at the NWL Group's expense, outside legal or other professional advice on any matters within its terms of reference; and
- to call any employee of the NWL Group to be questioned at a meeting of the Sub-Committee as and when required.

**TERMS OF REFERENCE**  
**OF**  
**THE RISK & COMPLIANCE SUB-COMMITTEE**  
**(being a Sub-Committee of the NWL Audit Committee)**  
**(the “Sub-Committee”)**

In these terms of reference:

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

“**Northumbrian Water Group**” means Northumbrian Water Group Limited and its direct and indirect subsidiaries (including the NWL Group).

“**NWGL**” means Northumbrian Water Group Limited.

“**NWL Audit Committee**” means the Audit Committee of the NWL Board.

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

“**NWL Group**” means the Company and its direct and indirect subsidiaries.

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**1. Purpose of the Committee**

The purpose of the Sub-Committee is to assist the Audit Committee to discharge its responsibilities to the NWL Board in relation to assessing the scope and effectiveness of the NWL Group's risk management systems and the integrity of its internal financial controls.

**2. Membership and Attendance**

- (i) The Sub-Committee shall be appointed by the Audit Committee and shall comprise at least two members, each of whom shall be non-executive directors nominated by NWL as independent non-executive directors for the purposes of its Instrument of Appointment. At least one member of the Sub-Committee shall have recent and relevant financial experience. The NWL Board may co-opt members who are not directors of the Company.
- (ii) The Sub-Committee shall ensure that the risk of any conflict of interest that might be seen to give rise to an unacceptable influence is minimised.
- (iii) The Audit Committee shall appoint the Sub-Committee Chairman. In the absence of the Sub-Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- (iv) Only members of the Sub-Committee have the right to attend Sub-Committee meetings, but the Sub-Committee may ask the Chairman of the Company, its Chief Executive Officer, its Chief Financial Officer and any relevant senior managers to attend all or part of meetings, either regularly or by invitation.
- (v) The Sub-Committee shall ask the Internal Audit Manager and representatives of the external auditors to attend meetings as appropriate.

**3. Secretary**

The Company Secretary or his nominee shall act as the Secretary of the Sub-Committee (the “**Secretary**”).

**4. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Sub-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 Sub-Committee.



## **5. Frequency of Meetings**

The Sub-Committee shall meet not less than three times a year and at such other times as the Chairman of the Sub-Committee shall require.

## **6. Notice of Meetings**

- (i) Meetings of the Sub-Committee shall be called by the Secretary of the Sub-Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- (ii) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers (where relevant), shall be sent to each member of the Sub-Committee and any other person required to attend, no fewer than five days prior to the date of the meeting.

## **7. Reports and Minutes of Meetings**

- (i) The Chairman of the Sub-Committee will report to the NWL Audit Committee the main items of business addressed at each meeting of the Sub-Committee.
- (ii) The Secretary shall minute the proceedings and resolutions of all meetings of the Sub-Committee, including recording the names of those present and in attendance.
- (iii) The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- (iv) Minutes of Sub-Committee meetings shall be circulated to all members of the Sub-Committee and, once approved, to all other members of the NWL Audit Committee, the NWL Board and the NWGL Board unless it would be inappropriate to do so in the opinion of the Chairman of the Sub-Committee.

## **8. Duties**

- (i) Internal Control and Risk

Assessment The Sub-Committee

shall:

- advise the NWL Board on the NWL Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective financial environment drawing on authoritative sources that may be relevant for the NWL Group's risk policies;
- oversee and advise the NWL Board on the current risk exposures of the NWL Group and future risk strategy;
- in relation to risk assessment:
  - keep under review the NWL Group's overall risk assessment processes that inform the NWL Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - review regularly and approve the parameters used in these measures and the methodology adopted; and
  - set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance;
- review the NWL Group's capability to identify and manage new risk types (in conjunction with the NWL Assurance Sub-Committee);
- review reports on any material breaches of risk limits and the adequacy of proposed action; and
- keep under review the effectiveness of the NWL Group's internal controls and risk management systems and review and approve statements to be included in the annual report concerning internal controls and risk management.

(ii) Compliance, whistleblowing and fraud

The Sub-Committee shall:

- review the adequacy and security of the NWL Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Sub-Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- review the Company's procedures for detecting fraud; and
- review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

(iii) Reporting Responsibilities

The Sub-Committee shall make whatever recommendations to the NWL Audit Committee it deems appropriate.

(iv) Other Matters

The Sub-Committee shall:

- ensure that the remit of the Internal Audit function addresses risk management appropriately and that 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;
- consider and review the NWL Group's business continuity arrangements;
- ensure that all necessary assurance on covenant compliance is provided by regularly reviewing the internal self-certification compliance framework;
- oversee any investigation of activities, which are within its Terms of Reference;
- from time to time review its own performance, and at least annually, review its constitution and Terms of Reference to ensure it is operating effectively; and
- have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

## 9. Authority

The Sub-Committee is authorised to:

- instigate and oversee any investigation into any matter within its terms of reference;
- seek any information it requires from any employee/director of the NWL Group in order to perform its duties;
- obtain, at the NWL Group's expense, outside legal or other professional advice on any matters within its terms of reference; and
- call any employee of the NWL Group to be questioned at a meeting of the Sub-Committee as and when required.