

**MATTERS RESERVED FOR THE BOARD OF DIRECTORS  
OF NORTHUMBRIAN WATER LIMITED  
(the “NWL Board”)  
 (“Section A Reserved Matters”)**

**A. Reserved matters to be dealt with by the NWL Board as a whole**

The matters in this Section A must be dealt with by the NWL Board as a whole, either in meeting or by written resolution or (as instructed by the Company Secretary) any 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 NWL 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 NWL 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 NWL 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 NWL 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 NWL Board will:

- (a) propose its plans to the board of directors of NWGL for contributing to the achievement of the corporate strategy of the Northumbrian Water Group (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 NWL’s Annual Report and Financial Statements.  
*[Final closure/signature may be delegated to an ad hoc committee or named individuals when the substance has been approved by the NWL Board.]*
  4. Approval of NWL’s Annual Performance Report.
  5. Approval of any NWL dividend policy and any NWL dividend.
  6. Approval of any significant change in accounting policies or practices.
  7. Terms of reference of the Chairman and Chief Executive Officer of the Company and (where applicable) other executive directors of the Company and NWL Subsidiaries.
  8. Establishing NWL 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 of the Company.]*
  9. Appointment or removal of directors of the Company.
  10. Appointment or removal of the Company Secretary.

**B. NWL Board Reserved Matters which may be dealt with by the NWL Standing Committee (“Section B Reserved Matters”)**

The matters below will in the normal course be dealt with by the NWL Board as a whole, but when this is not practicable, may be dealt with by the NWL Standing Committee (e.g. where a matter requires consideration and approval prior to the next scheduled NWL Board meeting):

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 of any value (excluding the opening of new bank accounts required in the normal course of business, which the NWL Executive Committee may approve).
5. Recommendations for the 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. Treasury policies. including foreign exchange exposures.
8. Approval of the overall levels of insurance for the Company and its subsidiaries including directors’ and officers’ liability insurance.
9. Nominations for appointments to boards of NWL subsidiary companies and terms of engagement to be determined in accordance with specific delegations to each NWL subsidiary company.
10. 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].*
11. Changes to the Company’s management and control structure.
12. Risk management strategy.
13. Health and Safety policy.
14. Equal Opportunities policy.
15. Sustainable development policy.
16. Environment policy.
17. Policy on charitable donations.
18. Political expenditure policy.

**C. NWL Board Reserved Matters which may be dealt with by the NWL Executive Committee (“Section C Reserved Matters”)**

The matters below will in the normal course be dealt with by the NWL Board as a whole, but when this is not practicable, may be dealt with by the NWL Executive Committee (e.g. where a matter requires consideration and approval prior to the next scheduled NWL Board meeting):

Approval of projects, sub-programmes, contracts, 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 these NWL Reserved Matters and TORs).

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

In these terms of reference:

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

“**Northumbrian Water Group**” means NWGL and all its direct and indirect subsidiaries.

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

“**NWGL Board**” means the board of directors of NWGL.

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

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

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1. The purpose of the NWL Executive Committee is to take all necessary decisions concerning the Company between NWL Board meetings.
  2. The members of the NWL Executive 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 the restrictions in paragraphs 6 and 7 below, and to any other decision of the NWL Board from time to time, the NWL Executive 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 these NWL Reserved Matters and TORs (which only the NWL Board and, in certain cases, the NWL Standing Committee has the authority to deal with), reporting to the NWL Board on its decisions.
  4. The quorum shall be two members.
  5. The NWL Executive Committee shall have authority to make specific, time-limited delegations of its authority to such person(s), sub-committee(s) or other body or bodies as it sees fit, but shall not make general delegations of its authority.
  6. The NWL Executive 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 Investment Board or, if requested, by the NWL 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 below £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 other contract, project or sub-programme with a value over the term being awarded (excluding options for extension), or, in the case of a re-authorisation, a revised value, between £5 million and below £10 million;
- (d) any income-generating contract with a value between £2 million and below £10 million;
- (e) any disposal of assets with a current market value between £1 million and below £2 million; and
- (f) 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 NWGL Board, or the NWGL Standing Committee or the NWGL Executive Committee for consideration as is appropriate and in accordance with the NWGL Board Reserved Matters and ToRs. The matter must still be considered and approved by the NWL Board, NWL Standing Committee or NWL Executive Committee (as appropriate).**

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

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

In these terms of reference:

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

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

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1. The purpose of the NWL Standing Committee is to take all necessary decisions concerning the Company between NWL Board meetings.
  2. The members of the NWL Standing Committee shall be all directors of the Company.
  3. Subject to any other decision of the NWL Board from time to time, the NWL Standing 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 these NWL Reserved Matters and ToRs (which only the NWL Board has the authority to deal with), reporting to the NWL 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 NWL Board.
  6. The Company Secretary or his nominee shall act as Secretary to the NWL Standing Committee.