

## MATTERS RESERVED FOR THE BOARD OF SOUTH EAST WATER LTD

This schedule of matters reserved for the decision of the Board has been adopted by the Board of South East Water Ltd in compliance with principle 1.2.8 of the South East Water Corporate Governance Code. This schedule does not restrict in any way whatsoever the discretion of the Directors to consider any other matter.

### 1. Strategy and Leadership

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| 1.1. Responsibility for the overall leadership of the Company and setting the Company's values and standards   | Code 1.2,<br>1.2.1, 1.2.2 &<br>1.2.4    |
| 1.2. Approval of the Company's strategic aims and objectives, of the Company's regulatory and commercial strategy and of the Company's Corporate Plan                      | Code 1.2 &<br>1.2.3                     |
| 1.3. Approval of the annual operating and capital expenditure budgets and any material changes to them   |   |
| 1.4. Oversight of Company's operations, ensuring:  | Code 1.1.4,<br>1.2.1, 3.1, 3.2<br>& 3.3 |
| 1. Competent and prudent management  |   |
| 2. Sound planning  |   |
| 3. Maintenance of sound management and internal control systems  |   |
| 4. Adequate accounting and other records   |   |
| 5. Compliance with statutory and regulatory obligations  |   |
| 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 2.6                                |
| 1.6. Extension of the Company's activities into new markets, business or geographic areas  |   |
| 1.7. Any decision to cease to operate all or any material part of the Company's business   |   |
| 1.8. Creation or acquisition of any subsidiary or business or disposal of any subsidiary or business   |   |
| 1.9. Acquisitions or disposals of major fixed assets such as land or buildings   |   |
| 1.10. Participation in any industry collaboration or commercial strategic alliances  |   |
| 1.11. Any takeover or merger or investments  |   |

### 2. Structure and Capital

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| 2.1. Changes relating to the Company's capital structure including reduction of capital, share issues, share buy backs |  |
| 2.2. Changes relating to the corporate structure of the Company's group of subsidiaries                                |  |

- 2.3. Changes to the group's management and control structure
- 2.4. Changes to the financial structure
- 2.5. Raising of new debt including the renewal or replacement of existing facilities

### 3. Financial Reporting and Controls

- 3.1. \*Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results following recommendations from the audit and risk committee Code 3.1, 3.2  
3.2.2 & 3.4.5  
Audit 9.1.1
  
- 3.2. \*Approval of the annual report and accounts (including the corporate governance statement and directors' remuneration report) and of the Regulatory Accounts following recommendations from the respective committees CA06 s414,  
s415  
Code 2.2.8,  
3.1, 3.2 3.2.2,  
3.4.5, 3.4.7 &  
4.2.7  
Audit 9.1.1  
Nomination  
9.3  
Remuneration  
9.3
  
- 3.3. \*Approval of the dividend policy Licence F6.12  
& F6A.5A(f)
  
- 3.4. \*Declaration of any dividends Licence F6.12  
& F6A.5A(f)
  
- 3.5. \*Approval of any significant changes in accounting policies or practices following recommendations from the audit and risk committee Code 3.2 & 3.4  
Audit 9.1.1,  
9.1.2(a)
  
- 3.6. Approval of the Treasury Policy
  
- 3.7. Approval of material unbudgeted capital or operating expenditure (outside pre-determined tolerances)

### 4. Internal Controls

- 4.1. Ensuring maintenance of a sound system of internal control and risk management, including Code 1.2,  
1.2.1, 1.2.2,  
3.3 & 3.3.1  
Audit 9.3.1-  
9.3.11  
Bribery Act  
2010
  - 1. Approving any Company's risk appetite statements
  - 2. Approving the risk management strategy and processes including the corporate risk register and the identification of the Company's principal risks
  - 3. Receiving reports on and reviewing the effectiveness of the Company's risk and control processes to support its strategy and objectives including the identification of the Company's principal risks
  - 4. Approving procedures for the detection of fraud and the prevention of bribery
  - 5. Undertaking an annual assessment of these processes; and
  - 6. Approving an appropriate statement for inclusion in the annual report

### 5. Contracts Approval

- 5.1. Major capital framework agreements with a value in excess of £3m including framework agreements for engineering consultancy, framework agreements

for the delivery of the Company's capital programme, term renewal and maintenance agreements or their extension and material capex contracts (as defined in the approved Outsourcing Policy set out in the Company's finance documents) or their extension and oversight over execution and delivery of these agreements

- 5.2. Capital expenditure contracts with a value in excess of £3m not delivered under a framework agreement which are material strategically or by reason of size or risk profile as identified by the EIC
- 5.3. Material outsourcing agreements as defined in the approved Outsourcing Policy (set out in the Company's finance documents) or their extension
- 5.4. Contracts of the Company not in the ordinary course of business

## 6. Communication

- 6.1. Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives
- 6.2. \*Approval of all circulars, prospectuses and listing particulars
- 6.3. \*Approval of press releases concerning matters decided by the board

## 7. Board membership and other appointments

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|---|--|
| 7.1. *Changes to the structure, size and composition of the board following recommendations from the nomination committee   | Code 2.1,<br>2.2.3 & 2.2.6<br>Nomination<br>8.1                    |
| 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 following recommendations from the nomination committee | Code 2.2,<br>2.2.2 & 2.2.3<br>Nomination<br>8.2, 8.3 & 8.13        |
| 7.3. *Appointments to the board following recommendations from the nomination committee   | Code 2.2,<br>2.2.3 & 2.2.6<br>Nomination<br>8.1, 8.5               |
| 7.4. *Selection of the chairman of the board and the chief executive following recommendations from the nomination committee  | Code 2.2,<br>2.2.3 & 2.2.6<br>Nomination<br>8.5, 8.7 & 8.13<br>GBE |
| 7.5. *Membership and chairmanship of board committees following recommendations from the nomination committee   | Code 2.1,<br>2.1.6, 2.2.3,<br>3.4.1 & 4.2.3<br>Nomination<br>8.15  |
| 7.6. *Continuation in office of directors at the end of their term of office following recommendations from the nomination committee  | Code 2.2.7<br>Nomination<br>8.16                                   |
| 7.7. *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   | Code 2.2.7<br>Nomination<br>8.17                                   |

company, subject to the law and their service contract following recommendations from the nomination committee

- 7.8. \*Appointment or removal of the company secretary
- 7.9. \*Appointment, reappointment or removal of the external auditor following the recommendation of the audit committee CA06 s485,  
s487 & 510  
Code 3.4.10  
Audit 9.6.1
- 7.10. Appointments to boards of subsidiaries
- 8. Remuneration**
- 8.1. \*Determining the remuneration policy for the directors and senior executives following recommendations from the remuneration committee Code 4.2  
Remuneration  
8.1
- 8.2. Determining the remuneration of the non-executive directors, subject to the articles of association and shareholder approval as appropriate provided that no director is involved in deciding his or her own remuneration Code 4.2.9
- 8.3. \*The introduction of new share or long term incentive plans or major changes to existing plans to be put to shareholders for approval
- 9. Delegation of Authority**
- 9.1. \*The division of responsibilities between the chairman and the managing director which should be clearly established, set out in writing and agreed by the board Code 1.3.2
- 9.2. Approval of delegated levels of authority, including the managing director authority limits (which must be in writing)
- 9.3. \*Establishing board committees and approving their terms of reference, and approving material changes thereto Code 2.2.3,  
3.4.1 & 4.2.3
- 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 of individual directors, and the division of responsibilities Code 2.6  
Nomination  
8.10
- 10.2. \*Determining the independence of non-executive directors in light of their character, judgment and relationships Code 2.1.8
- 10.3. \*Considering the balance of interests between shareholders, employees, customers, the community and the environment CA06 s172  
Code 1.1.3 &  
1.1.4
- 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
- 10.6. Authorising actual or potential conflicts of interest where permitted by the Company's articles of association CA06 s175,  
s177

## 11. Approval of board policies

Approval of policies including:

- Bribery prevention
- Whistleblowing
- Health and safety
- Environment and sustainability
- Human resources
- Corporate social responsibility
- Charitable donations
- Diversity
- Corporate Identity including trading names

Code 1.1.4,  
1.2, 1.2.1,  
1.2.2, 1.2.4 &  
3.3

## 12. Key Regulatory Submissions

12.1. Approval of all key regulatory submissions, including:

1. Business Plan
2. Agreement to Price Determination
3. Water Resource Management Plan
4. Annual Performance Report and Risk and Compliance Statement
5. Wholesale and retail charges
6. Drought Plan

Code 1.1.3,  
1.1.4, 1.2,  
1.2.1, 1.2.2,  
1.2.3, 3.2,  
3.2.2

12.2. Approval of all key codes, statements and assurance required to be produced by the Company in compliance with its statutory and regulatory obligations

## 13. Other

13.1. The making of political donations

13.2. Approval of the appointment of the Company's principal professional advisers

13.3. Prosecution, commencement, defence or settlement of litigation or an alternative dispute resolution mechanism involving above £500,000 or being otherwise material to the interests of the Company

13.4. Approval of overall levels of insurance for the group including directors' and officers' liability insurance and the indemnification of directors

Code 1.2.11

13.5. Major changes to the rules of the Company's pension scheme and changes to the company appointed trustees

13.6. Any decision likely to have a material impact on the company from any perspective, including but not limited to, financial, operational, regulatory, strategic or reputational

13.7. This schedule of matters reserved for board decisions

Matters which the board considers suitable for delegation are contained in the terms of reference of its committees. Items marked \* are not considered to be suitable for full delegation to a committee of the board because the final decision should be made by the board as a whole following consideration and/or recommendation from a committee where applicable.

In addition, the board will receive reports and recommendations from time to time on any matter which it considers significant to the Company.

**Index / Glossary:**

CA06 refers to the Companies Act 2006

Code refers to the South East Water Corporate Governance Code

Licence refers to the Company's instrument of appointment

GBE refers to the FRC's guidance on board effectiveness

Audit, Nomination and Remuneration are references to the terms of reference of each of these committees