south east water

# SOUTH EAST WATER CORPORATE GOVERNANCE CODE

## Code Objectives

The Board of South East Water is committed to maintaining high standards of governance and leadership and demonstrating to customers, shareholders, investors, regulators and other stakeholders how this is achieved.

This Code is designed to ensure that South East Water continuously reviews and enhances its corporate governance framework to achieve best practice. It also ensures that South East Water demonstrates a transparent approach to all governance matters.

The Board is committed to maintaining South East Water's reputation for high standards of conduct as a dependable provider of an essential service. In defining South East Water's corporate governance framework, the Board promotes transparency, accountability, ethical conduct and commitment to high standards of performance in delivering services to customers and to the protection of the environment.

## Corporate Governance Principles

This Code sets out how the Board ensures compliance with principles of corporate governance to achieve the Code Objectives. In the context of company law and in particular the definition of directors duties set out in the Companies Act 2006, South East Water follows the principles of governance set out in:

- the conditions of its Instrument of Appointment;
- the Corporate Governance Code and the Disclosure and Transparency Rules which can reasonably be applied to a privately owned company; and
- the Ofwat's principles of leadership, transparency and governance.

(together the "Corporate Governance Principles")

South East Water has regard to guidance and other publications issued in relation to the Corporate Governance Principles by the Financial Reporting Council and other institutions and to other guidance published by its regulators relevant to corporate governance.

South East Water also recognises that its principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to good corporate governance as part of a broader desire to ensuring that South East Water:

- Incorporates Environmental, Social and Governance (ESG) issues into its investment analysis and decision-making processes
- Incorporates the consideration of ESG issues into its policies and practices
- Seeks appropriate disclosure on ESG issues
- Reports on its activities and progress towards implementing improved ESG consideration

- Promotes better ESG consideration, including corporate governance.

## Compliance Commitments

Under this Corporate Governance Code South East Water will comply with the following provisions:

- In defining and implementing its corporate governance framework the Board will seek to achieve optimum compliance with the Corporate Governance Principles.
- Where there is divergence between any of the Corporate Governance Principles the Board will explain how it reconciles these differences.
- Where specific conditions of the Company justify following an alternative to a provision the Board will seek to achieve an equivalent outcome and explain clearly and carefully how its actual practices are both consistent with the principle to which the particular provision relates and how they contribute to good governance.
- The Board will develop and maintain an internal action plan pertaining to all corporate governance matters.
- The Board will review the effectiveness of South East Water's corporate governance framework annually and following this review determines what steps are required to ensure that it is in line with developments in corporate governance and best practice. Resulting actions will be implemented and monitored by way of the corporate governance action plan.
- The Board will publish South East Water's Corporate Governance Code and an annual statement on the steps it has taken to maintain or improve compliance with this Code on its Website.
- The Board will review South East Water's practices in relation to reporting on its activities to ensure that it complies with the Corporate Governance Principles and this Code Objectives and that it is fair, transparent and accessible.

# 1 LEADERSHIP

## Leadership of the Regulated Company

**1.1 The company will act as if it was a separate public listed company.** 2

1.1.1 The company will be led by a unitary board which will make all decisions about the business of the company. Any matters which, as an exception, require shareholders' approval will be clearly documented. 2.1 2.4 2.6

1.1.2 The board will lead the company, both in terms of accountability and legitimacy. 2.7

1.1.3 The board will be able to make strategic and sustainable decisions in the interests of the company for the long term and will endeavour to balance the conflicting needs of customers, the environment, the business and shareholders. 2.3 2.5

1.1.4 The board will focus on the company's regulatory and statutory obligations and on the strategy to deliver the service and performance which meets the needs of customers, the environment, the business and shareholders. 2 3.1

1.1.5 Board committees, including but not limited to audit and remuneration committees will be committees of the board of the company and will operate in a comparable way to those of listed company boards. 5 5.1 5.2

1.1.6 The board will ensure and monitor compliance with the obligations of the company under its Licence and in particular conditions K, F and P having regard particularly to the requirements of condition F in relation to corporate governance and the conduct of the appointed business. 2

## The Role of the Board

**1.2 The company will be headed by an effective board which is collectively responsible for the long-term success of the company.** A.1

1.2.1 The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board will strive to make well-informed and high-quality decisions based on a clear line of sight into the business. A.1 2.2

1.2.2 The board will provide clear direction for management and create a framework that supports directors in meeting their statutory and regulatory duties. 2.1

1.2.3 The board will set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. A.1 2.1

1.2.4 The board will set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met. A.1

1.2.5 All directors will act in what they consider to be the best interests of the company, consistent with their statutory duties in sections 170 to 177 of the Companies Act 2006. A.1 2.1

1.2.6 The board will meet sufficiently regularly to discharge its duties effectively. Attendance by alternate directors will not be a common occurrence. A.1.1 3.6

1.2.7 There will be a formal schedule of matters specifically reserved for the board's decision. A.1.1

1.2.8 The annual report will include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management. A.1.1 7.2.7

1.2.9 The annual report will identify the chairman, the chief executive, and the chairmen and members of the board committees. A.1.2 7.2.7 7.1.5

1.2.10 The annual report will also set out the number of meetings of the board and the committees and individual attendance by directors. A.1.2 3.6

1.2.11 The company will arrange appropriate insurance cover in respect of legal action against its directors. A.1.3

## Division of responsibilities

**1.3 There will be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual will have unfettered powers of decision.** A.2 4.3

1.3.1 The roles of chairman and chief executive will not be exercised by the same individual. The chairman will not be a former executive director of the company or group company. A.2.1 4.3

1.3.2 The division of responsibilities between the chairman and chief executive will be clearly established, set out in writing and agreed by the board. A.2.1

## The Chairman

**1.4 The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.** A.3

1.4.1 The chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. A.3

1.4.2 The chairman will also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. A.3

1.4.3 The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. A.3

1.4.4 The chairman will ensure effective communication with shareholders. A.3

1.4.5 The chairman will be independent of management and shareholders. The chairman will not be linked to a shareholder, as this would affect the impartiality of the chairman. 4 4.1 4.4

1.4.6 A chief executive or executive of the company or group company will not go on to be the chairman of the company. A.3.1 4.3

## Non-executive Directors

**1.5 As part of their role as members of a unitary board, non-executive directors will constructively challenge and help develop proposals on strategy. There will be significant independent representation on the board as independent non-executive directors are essential to securing strong board leadership and governance and to provide constructive challenge and help develop proposals.** A.4 2.1 3 3.2

1.5.1 Non-executive directors will scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. A.4

1.5.2 They will satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. A.4

1.5.3 They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. A.4

1.5.4 The chairman will hold meetings with the non-executive directors without the executives present. Led by an independent director, the non-executive directors A.4.2

will meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

1.5.5 Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns. A.4.3

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## 2 EFFECTIVENESS

### The Composition of the board

**2.1 The board and its committees will have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.** B.1 3 3.9

2.1.1 The board will be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and will not be so large as to be unwieldy. B.1

2.1.2 The board will include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. B.1

2.1.3 Independent directors (including an independent chairman) will be the largest single group on the board, compared with (i) executive directors, and (ii) non-executive directors who are not independent. 3.3

2.1.4 The number of shareholders' representatives on the board will not be greater than the number of independent directors (excluding an independent chairman). 3.4

2.1.5 There will be fewer executives than independent non-executive directors (including an independent chairman) on the board. 3.5

2.1.6 The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals will be taken into account in deciding chairmanship and membership of committees. B.1

2.1.7 No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee. B.1

2.1.8 The board will identify in the annual report each non-executive director it considers to be independent. The board will determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board will state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director: B.1.1

- has been an employee of the company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;

- has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the board for more than nine years from the date of their first election.

### Appointments to the Board

**2.2 There will be a formal, rigorous and transparent procedure for the appointment of new directors to the board.** B.2 3.9

2.2.1 The search for board candidates will be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender. B.2

2.2.2 The board will satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board. B.2

2.2.3 There will be a nomination committee which will lead the process for board appointments and make recommendations to the board. B.2.1 3.9

2.2.4 A majority of members of the nomination committee will be independent non-executive directors. An independent non-executive director will chair the committee. B.2.1 3.9 5.1

2.2.5 The nomination committee will make available its terms of reference, explaining its role and the authority delegated to it by the board. B.2.1

2.2.6 When considering new appointments, the nomination committee will evaluate the balance of skills, experience, independence and knowledge on the board and not solely individual merits. In the light of this evaluation the nomination committee will prepare a description of the role and capabilities required for a particular appointment. B.2.2 3.9

2.2.7 Independent non-executive directors will be appointed for specified terms subject to statutory provisions relating to the removal of a director. Any continuous term beyond six years for a non-executive director will be subject to particularly B.2.3

rigorous review, and will take into account the need for progressive refreshing of the board.

2.2.8 A separate section of the annual report will describe the work of the nomination committee, including the process it has used in relation to board appointments. This section will include a description 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. An explanation will be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it will be identified in the annual report and a statement made as to whether it has any other connection with the company. B.2.4 7.2.7

## Commitment

**2.3 All directors will be able to allocate sufficient time to the company to discharge their responsibilities effectively.** B.3 3.6

2.3.1 For the appointment of a chairman, the nomination committee will prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crisis. A chairman's other significant commitments will be disclosed to the board before appointment and included in the annual report. Changes to such commitments will be reported to the board as they arise, and their impact explained in the next annual report. B.3.1

2.3.2 The terms and conditions of appointment of non-executive directors will be made available. The letter of appointment should set out the expected time commitment. Non-executive directors will undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments will be disclosed to the board before appointment, with a broad indication of the time involved and the board will be informed of subsequent changes. B.3.2

## Development

**2.4 All directors will receive induction on joining the board and will regularly update and refresh their skills and knowledge.** B.4

2.4.1 The chairman will ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company will provide the necessary resources for developing and updating its directors' knowledge and capabilities. B.4

2.4.2 To function effectively all directors need appropriate knowledge of the company and access to its operations and staff. B.4

2.4.3 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors will avail themselves of opportunities to meet the shareholders' representatives. B.4.1

2.4.4 The chairman will regularly review and agree with each director their training and development needs. B.4.2

### Information and Support

**2.5 The board will be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.** B.5 2.2

2.5.1 The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors will seek clarification or amplification where necessary. B.5

2.5.2 Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required. B.5

2.5.3 The company secretary will be responsible for advising the board through the chairman on all governance matters. B.5

2.5.4 The board will ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees will be provided with sufficient resources to undertake their duties. B.5.1

2.5.5 All directors will have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. B.5.2

### Evaluation

**2.6 The board will undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors and review its composition.** B.6 3.7 3.8

2.6.1 Evaluation of the board will consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness including its ability to balance the needs of customers, the environment, the business and shareholders. B.6 3.7

2.6.2 The board led by the chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. B.6 3.8

2.6.3 Individual evaluation will aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). Individual evaluations will consider the personal attributes that are demonstrated by effective independent non-executive directors set out in the Financial Reporting Council's "Guidance on Board Effectiveness". B.6 3.7

2.6.4 The board will state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. B.6.1 3.8

2.6.5 The board will consider the appropriateness and benefits of externally facilitated evaluation at least every three years. If an external facilitated evaluation is conducted, the external facilitator will be identified in the annual report and a statement made as to whether they have any other connection with the company. B.6.2

2.6.6 The non-executive directors will be responsible for performance evaluation of the chairman, taking into account the views of executive directors. B.6.3

2.6.7 Where an independent non-executive directors has served longer than nine years each extension of this director's appointment shall be for a maximum duration of one year. B.7.1

# 3 TRANSPARENCY & ACCOUNTABILITY

## Transparency

**3.1** **The board will have particular regard to achieving transparent and open reporting and will consider how best to demonstrate how it meets the principles of this code and how to ensure that the information is accessible to the audiences for this information through the use of the annual report, regulatory accounts or the company's website.** 1.1 1.2 1.4

## Financial and Business Reporting

**3.2** **The board will present a fair, balanced and understandable assessment of the company's position and prospects. Reporting will meet or exceed the standards set out in the Disclosure and Transparency Rules.** C.1 1 1.5 7.2

3.2.1 Reporting will reflect material issues including company performance, the key risks to the business and the group structure which will be explained in a way that is clear and simple to understand. 1.3 6 6.1

3.2.2 The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. C.1

3.2.3 The board will establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable. C.1

3.2.4 The form and contents of the corporate governance statement will meet the requirements of the Disclosure and Transparency Rules and include the details of the membership of committees, the number of times they met, and the attendance at each committee meeting. 1.5 5.5 7.2

3.2.5 In relation to the remuneration of directors, the board will consider whether and how to take account of the requirements that apply to the Directors' Remuneration Report for a quoted company. 1.6

3.2.6 The directors will explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. There will be a statement by the auditor about their reporting responsibilities. C.1.1

3.2.7 The directors will include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company. C.1.2

3.2.8 In annual and half-yearly financial statements, the directors will state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. C.1.3

## Risk Management and Internal Control

**3.3 The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board will maintain sound risk management and internal control systems.** C.2

3.3.1 The directors will confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors will describe those risks and explain how they are being managed or mitigated. C.2.1

3.3.2 Taking account of the company's current position and principal risks, the directors will explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors will state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. C.2.2

3.3.3 The board will monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review will cover all material controls, including financial, operational and compliance controls. C.2.3 7.2.5

## Audit Committee and Auditors

**3.4 The board will establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.** C.3

3.4.1 The board will establish an audit committee with a majority of independent non-executive directors. C.3.1 5 7.1.1

3.4.2 The committees will be chaired by an independent non-executive director. The independent company chairman may be a member of, but not chair, the committee. C.3.1 5.1

3.4.3 Where the audit committee does not have a majority of independent members or is not chaired by an independent non-executive director the board will explain why it considers this approach is appropriate. 5.1

3.4.4 The board will satisfy itself that at least one member of the audit committee has recent and relevant financial experience, and that the independent directors on the committee have the requisite financial knowledge and experience to provide appropriate challenge. C.3.1 5.4

3.4.5 The main role and responsibilities of the audit committee will be set out in written terms of reference and should include: C.3.2 7.1.3

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- to monitor and review the effectiveness of the company's internal audit function;
- to make recommendations to the board, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- to report to the board on how it has discharged its responsibilities.

3.4.6 The terms of reference of the audit committee, including its role and the authority delegated to it by the board, will be made available. C.3.3 7.2.7

3.4.7 Where requested by the board, the audit committee will provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. C.3.4

3.4.8 The audit committee will review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective will be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. C.3.5

3.4.9 The audit committee will monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee will consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function will be explained in the relevant section of the annual report. C.3.6

3.4.10 The audit committee will have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it will include in the annual report a statement from the audit committee explaining the recommendation and should set out the reasons why the board has taken a different position. C.3.7 7.1.4

3.4.11 A separate section of the annual report will describe the work of the committee in discharging its responsibilities. The report will include: C.3.8 7.1.5

- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

# 4 REMUNERATION

## The Level and Components of Remuneration

**4.1 Executive directors' remuneration should be designed to promote the long-term success of the company. Performance related elements should be transparent, stretching and rigorously applied.** D.1

4.1.1 The remuneration committee will judge where to position the company relative to other companies. But it will use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in corporate and individual performance and will avoid paying more than necessary. D.1

4.1.2 In designing schemes of performance-related remuneration for executive directors, the remuneration committee will follow the provisions in Schedule A to the UK Corporate Governance Code. Schemes will include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so D.1.1

4.1.3 Where the company releases an executive director to serve as a non-executive director elsewhere, the remuneration report will include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is. D.1.2

4.1.4 Levels of remuneration for non-executive directors will reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors will not include share options or other performance-related elements. D.1.3

4.1.5 The remuneration committee will carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim will be to avoid rewarding poor performance. The remuneration committee will take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss. D.1.4

4.1.6 Notice or contract periods will be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period. D.1.5

## Procedure

**4.2 There will be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director will be involved in deciding his or her own remuneration.** D.2

4.2.1 The remuneration committee will take care to recognise and manage conflicts of interest when receiving views from executive directors or senior management, or D.2

consulting the chief executive about its proposals. The remuneration committee will also be responsible for appointing any consultants in respect of executive director remuneration.

4.2.2 The chairman of the board will ensure that the committee chairman maintains contact as required with its principal shareholders about remuneration. D.2

4.2.3 The board will establish a remuneration committee with a majority of independent non-executive directors. D.2.1 5

4.2.4 The chairman of the remuneration committee will be an independent non-executive director. The independent company chairman may also be a member of, but not chair, the remuneration committee. D.2.1 5.1

4.2.5 Where the remuneration committee does not have a majority of independent members or is not chaired by an independent non-executive director the board will explain why it considers its approach is appropriate. 5.1

4.2.6 The board will satisfy itself that the independent directors on the remuneration committee have the requisite financial knowledge and experience to provide appropriate challenge. 5.4

4.2.7 The remuneration committee will make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, they will be identified in the annual report and a statement made as to whether they have any other connection with the company. D.2.1

4.2.8 The remuneration committee will have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose will be determined by the board but would normally include the first layer of management below board level. D.2.2

4.2.9 The board itself or, where required by the Articles of Association, the shareholders will determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive. D.2.3