

AffinityWater

Matters Reserved for the Board: May 2023



INTRODUCTION

1. At the core of Affinity Water's purpose and values is a deep understanding of the fundamental importance of strong board leadership to a company providing an essential public service accountable to our customers, communities, shareholders, and wider stakeholders. Affinity continues to welcome the focus placed on this important area for the water industry in Ofwat's board leadership, transparency and governance principles published in 2019. Meeting the objectives of these principles is a licence requirement for Affinity Water.

2. The board's objective is to enhance Affinity Water's performance in line with the Instrument of Appointment and the needs and preferences of our customers, shareholders, and stakeholders. Our Purpose to

“Provide high quality drinking water and take care of the environment for our communities now and in the future”

2. The Governance Code sets out the framework for how we govern and operate our business to high standards of probity and transparency. Pursuant to the Governance Code all material matters affecting Affinity Water must be considered by the board.

3. We describe in Consulting with our Shareholders those matters where the board also consults with our shareholders prior to making any decision and the process for doing so.

4. This Matters Reserved for the Board document provides:

- a statement of principles and process that must be considered wherever a matter is to be referred to the board.
- a list of those matters that must be referred for consideration by the board in all instances. This list does not qualify the requirement that all material matters affecting Affinity Water must be considered by the board.

4. Those matters that the board consider are suitable for standing delegation to the Executive Management Team, are set out in the EMT Delegation of Authority.

EFFECTIVENESS

This document was approved by the board on 26 May 2023 and takes effect immediately.

PROCESS

When any matter is referred to the board, the following principles should be addressed:

- matters are raised on a timely basis. The board is the forum to consider strategic options and wherever possible matters should be referred in sufficient time to ensure options are not restricted;
- matters are raised in the normal board cycle and board pack wherever possible;
- matters raised include a sufficient summary to ensure the board are able to quickly appreciate the relevant issue and any associated risks and considerations for the Company;

- any report considers the impact on stakeholders (customers, communities, shareholders, and wider stakeholders) where relevant;
- wherever possible engagement with stakeholders and how that might be communicated should be included to best promote the objective that “The Board is committed to ensuring that its approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions”;
- correspondence from regulators and proposals for regulatory development should be referred to the board on a timely basis;
- robust and fully developed assurance is provided with all analysis and any draft submission.

MATTERS RESERVED FOR THE BOARD

Notes:

Wherever used in this list “material” means in respect of an event or circumstance, action, or omission where that event, circumstance, act, or omission could impact the Company's performance when measured against the business plan or budget, the financial condition of Company or the ability of the Company to perform its obligations howsoever described.

References to “Company”, where relevant, include the financing subsidiaries of Affinity Water Limited.

1.	STRATEGY AND MANAGEMENT
1.1	Responsibility for the Company and setting the Company's purpose, strategic values and standards and its culture so that they reflect the needs of those it serves.
1.2	Ensuring that all stakeholders are engaged, and the Company's transparency and governance engenders trust in the Company.
1.3	Approvals of the annual operating and capital expenditure budgets and any material changes to them.
1.4	Responsibility for the Company's operations ensuring: <ul style="list-style-type: none"> • competent and prudent management; • sound planning; • maintenance of sound management risk management and internal control systems; • adequate accounting and other records; and • compliance with statutory and regulatory obligations to secure the carrying out of its regulated activities including the investment programme
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.
1.6	Extension of the Company's activities into new business or geographic areas.

1.7	Any decision to cease to operate all or any material part of the Company's business.
2.	STRUCTURE AND CAPITAL
2.1	Changes relating to the Company's capital structure including reduction of capital, share issues (except under employee share plans), share buy backs including the use of treasury shares.
2.2	Major changes to the Company's corporate structure, including, but not limited to acquisitions and disposals of shares.
2.3	Changes to the Company's management and control structure.
2.4	Any changes to the listing of a Company's debt or its status as a plc.
3.	FINANCIAL REPORTING AND CONTROLS
3.1	Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results.
3.2	Approval of the annual report and accounts, including the corporate governance statement and directors' remuneration report.
3.3	Approval of the dividend policy, ensuring it complies with the Company's Instrument of Appointment
3.4	Declaration of any interim dividend and recommendation of the final dividend.
3.5	Approval of any material/significant changes in accounting policies or practices.
3.6	Approval of treasury policies including risk approach, foreign currency exposure and the use of financial derivatives.
3.7	Approval of material unbudgeted capital or operating expenditures (outside pre-determined tolerances). See overlap with 5.2
4.	INTERNAL CONTROLS

4.1	<p>Ensuring maintenance of a sound system of internal control and risk management including:</p> <ul style="list-style-type: none"> • Approving the Company's risk appetite statements; • Assessing the principal risks facing the Company; • Receiving reports on, and reviewing the effectiveness of, the Company's risk and control processes to support its strategy and objectives; • Approving procedures for the detection of fraud and the prevention of bribery; • Undertaking an annual assessment of these processes; and • Approving an appropriate statement for inclusion in the annual report • Approving the Company's assurance plan.
5	CONTRACTS
5.1	Approval of material capital projects and oversight over execution and delivery.
5.2	<p>Approval of contracts which are:</p> <ul style="list-style-type: none"> • materially strategic; • not included in the budget or business plan approved by the board; • otherwise valued above a cumulative consideration of £5/10 million over the duration of the contract; or • to be awarded other than in accordance with the Company's internal and external procurement rules. • Board to be informed of Capex Projects/Expenditure/Procurement >£1m in total value
5.3	Contracts of the Company or any subsidiary not in the ordinary course of business, for example loans and repayments above £5 million; foreign currency transactions above £5 million; major acquisitions or disposals above £5 million.
5.4	Major investments including the acquisition or disposal of interests of voting shares of any company or the making of any takeover offer.
6	COMMUNICATION
6.1	Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives.
6.2	Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.
6.3	Approval of all circulars, prospectuses and listing particulars relating to a Company's listed debt.
6.4	Approval of press releases concerning matters decided by the board.
7	BOARD MEMBERSHIP AND OTHER APPOINTMENTS
7.1	Changes to the structure, size, and composition of the board, following recommendations from the nomination committee.
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.

7.3	Appointments to the board, following recommendations by the nomination committee.
7.4	Selection of the Chair of the board the Chief Executive Officer and the Chief Financial Officer.
7.5	Appointment of any senior independent director to provide a sounding board for the Chair and to serve as intermediary for the other directors when necessary.
7.6	Membership and Chair of board committees following recommendations from the nomination committee.
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 Company, subject to the law and their service contract.
7.8	Appointment or removal of the company secretary.
7.9	Appointment, reappointment, or removal of the external auditor to be put to shareholders for approval in general meeting, following the recommendation of the audit risk and assurance committee.
7.10	Appointments to boards of subsidiaries.
8	REMUNERATION
8.1	Determining the remuneration policy for the directors, company secretary and other senior executives.
8.2	Determining the remuneration of the non-executive directors, subject to the articles of association.
8.3	The introduction of new share incentive plans
9	DELEGATION OF AUTHORITY
9.1	The division of responsibilities between the Chair, the chief executive, and other executive directors, which should be clearly established, set out in writing, and agreed by the board.
9.2	Approval of the delegated levels of authority, including the chief executive's authority limits (which must be in writing).
9.3	Establishing any board committees and approving the terms of reference and approving material changes thereto.
9.4	Receiving reports from board committees on their activities and ensuring any matters proposed or recommended and final decisions are properly considered.
10	CORPORATE GOVERNANCE MATTERS

10.1	Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities.
10.2	Determining the independence of non-executive directors in light of their character, judgment, and relationships.
10.3	Considering the balance of interests between shareholders, employees, customers, the community, and other stakeholders.
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 conflicts of interest where permitted by the Company's articles of association.
11	POLICIES
11.1	Approval of policies, including: <ul style="list-style-type: none"> • Code of Ethics; • Whistleblowing policy; • Health and safety policy; • Environment and sustainability policy; • Diversity and Inclusion policy; • Communications policy including procedures for the release of price-sensitive information; • Corporate social responsibility policy; and • Charitable donations policy.
12	OTHER
12.1	The making of political donations. The making of charitable donations above £50k.
12.2	Approval of the appointment of the Company's principal professional advisers where the appointment is expected to incur fees to the Company in excess of £1 million.
12.3	Prosecution, commencement, defence or settlement of litigation, or an alternative dispute resolution mechanism involving above £1 million or being otherwise material to the interests of the Company.
12.4	Approval of the overall levels of insurance for the Company including directors' & officers' liability insurance and indemnification of directors.
12.5	Changes to the rules of the Company's pension scheme.
12.6	Any decision likely to have a material impact on the Company from any perspective, including, but not limited to, financial, operational, strategic, or reputational.
12.7	This schedule of matters reserved for board decision.
13	REGULATORY MATTERS

13.1	Modifications to the Company's Instrument of Appointment.
13.2	Key performance indicators (financial, operational, customer services) on a quarterly basis.
13.3	Approval of any material submissions to Ofwat, the Drinking Water Inspectorate, Environment Agency, DEFRA, Competition Commission and similar agencies and bodies, including (without limitation) <ul style="list-style-type: none"> • price review submissions • Drought Plan • Water Resources Management Plan • Resilience Plans
13.4	Reviewing any material correspondence with Ofwat, the Drinking Water Inspectorate, Environment Agency, DEFRA, Competition Commission and similar agencies and bodies.
13.5	Approval of any material undertakings provided by the Company's ultimate controller(s) under Condition P of the Instrument of Appointment.
13.6	Approval of transactions and arrangements between the Company and associated businesses.
13.7	Approval of guarantees and loans to/on behalf of associated businesses, subject to Ofwat approval.
13.8	Approval and/or notification of matters that might impact reputation including (without limitation) <ul style="list-style-type: none"> • fluoridation policy issues (approval), • major operational issues (e.g., temporary use ban) (notification), • prosecutions by EA, DWI or similar, significant litigation (notification), • possible regulatory and enforcement action (approval) • investment plans and infrastructure subject to a public review (approval) • plans which might have impact on the environment, positive or negative, (approval).
13.9	Changes to Charges Schemes and Tariffs.
13.10	Approval of financial and other material statements to Ofwat (including land disposal certificates).
13.11	Appointment, re-appointment, or removal of any Reporter.
13.12	Approval of statements required by the Company's Instrument of Appointment.

Approved by the Board of Affinity Water Limited