

**ANGLIAN WATER SERVICES LIMITED (the "Company")**  
**2014 CORPORATE GOVERNANCE CODE**

**PART A: THE MAIN PRINCIPLES OF THE CODE**

**A Transparency**

- i. Reporting will meet the standards set out in the Disclosure and Transparency Rules insofar as those rules can sensibly be applied to an unlisted company.\*
- ii. The group structure will be explained in a way that is clear and simple to understand.\*

**B Standards of Conduct and Governance**

- iii. The Company will act as if it is a separate public listed company.\*

**C The Role of the Board (A.1)** iv. The Company will be headed by an effective Board which is collectively responsible for the long-term success of the Company:

- 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 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.
  - The Board will set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.
  - All directors must act in what they consider to be the best interests of the Company, consistent with their statutory duties.
- v. An effective Board is fully focused on the Company's legal and regulatory obligations.\*

**D Division of Responsibilities (A.2)** vi. 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.

**E The Chairman (A.3)**

- vii. The Chairman will be independent of management and investors.\*
- viii. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role:
  - 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.
  - 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.
  - The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information.

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## **F Independent Non-Executive Directors (A.4)**

- ix. There will be significant independent representation on the Board.\*
- x. Independent non-executive directors are essential to securing strong Board leadership and governance.\* xi. As part of their role as members of a unitary Board, non-executive directors will constructively challenge and help develop proposals on strategy:
- Non-executive directors will scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
  - They will satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.
  - 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.

**G Composition of the Board (B.1)** xii. 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\*:

- 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.
- 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.
- Board committees, including but not limited to audit and remuneration committees, will operate at the Company level.\*
- 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.
- 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.

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\* denotes Ofwat principle

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**H Appointments to the Board (including the Role and Composition of the Nomination Committee) (B.2)**

xiii. There will be a formal, rigorous and transparent procedure for the appointment of new directors to the Board:

- 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.
- 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.

**I Commitment (B.3)**

xiv. All directors will be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

**J Development (B.4)**

xv. All directors will receive induction on joining the Board and will regularly update and refresh their skills and knowledge:

- 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.
- To function effectively all directors need appropriate knowledge of the Company and access to its operations and staff.

**K Information and Support (B.5)** xvi. 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:

- 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.
- 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 nonexecutive directors, as well as facilitating induction and assisting with professional development as required.
- The Company Secretary will be responsible for advising the Board through the Chairman on all governance matters.

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**L Board and Committee Evaluation (B.6)** xvii. The Board will undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors:

- 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.
- 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.
- 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).

**M Financial and Business Reporting (C.1)** xviii. The Board will present a fair, balanced and understandable assessment of the Company's position and prospects:

- 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.
- The Board will establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable.

**N Risk Management and Internal Control (C.2)** xix. The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board will maintain sound risk management and internal control systems.

**O Audit Committee and Auditors (C.3)** xx. The Board will establish formal and transparent arrangements for considering how they will apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

**P Level and Components of Remuneration (D.1)**

xxi. Levels of remuneration will be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully, but the Company will avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration will be structured so as to link rewards to corporate and individual performance:

- The performance-related elements of executive directors' remuneration will be stretching and designed to promote the long-term success of the Company.
- The Remuneration Committee will judge where to position the Company relative to the remuneration arrangements of other companies. But they will use such comparisons with caution, in view of the risk of an

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upward ratchet of remuneration levels with no corresponding improvement in performance.

- They will also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases for senior executives.

**Q Remuneration Procedure (the Remuneration Committee) (D.2)**

xxii. 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:

- The Remuneration Committee will consult the Chairman and/or Chief Executive about their proposals relating to the remuneration of other executive directors.
- The Remuneration Committee will also be responsible for appointing any consultants in respect of executive director remuneration.
- Where executive directors or senior management are involved in advising or supporting the Remuneration Committee, care will be taken to recognise and avoid conflicts of interest.

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**PART B: DETAILED REQUIREMENTS**

**A Transparency**

<p>1. In accordance with the requirements of Rule 7.2 of the Disclosure and Transparency Rules, the Company will include a corporate governance statement either in its directors' report or in a separate report published together with the annual report. If the Company decides to produce of separate report it will make reference to this separate report in its directors report and will publish the separate report on its web-site.</p>	<p style="text-align: center;">Ofwat /DTR 7.2</p>
<p>2. The corporate governance statement will contain the following information:</p> <ul style="list-style-type: none"> <li>• details of the corporate governance code which the Company has decided to apply voluntarily;</li> <li>• all relevant information about the corporate governance practices applied beyond the requirements under applicable national law;</li> <li>• details of where the relevant corporate governance code is publicly available (to be provided in in the directors' report);</li> <li>• to the extent that the Company departs from that corporate governance code, an explanation of which parts of the corporate governance code it departs from and the reasons for doing so;</li> <li>• a description of the main features of the Company's internal control and risk management systems in relation to the financial reporting process; and</li> <li>• a description of the composition and operation of the Company's administrative, management and supervisory bodies and their committees.</li> </ul>	<p style="text-align: center;">Ofwat /DTR 7.2</p>
<p>3. The Board will ensure that material information in relation to its performance is accessible via its annual report. The annual report will also contain regulatory accounts and will be published on the Company's website.</p>	
<p>4. The annual report will provide details of Company performance and the key risks to the business.</p>	<p style="text-align: center;">Ofwat</p>
<p>5. The structure of the group within which the Company sits will be explained clearly in the annual report.</p>	<p style="text-align: center;">Ofwat</p>
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**B Standards of Conduct and Governance**

6. The Company will comply with the requirements of Condition F 6A.5A of its Licence and accordingly it will, at all times, conduct the business of being of a water undertaker and a Ofwat sewerage undertaker as if this business was substantially the Company's sole business and the Company were a separate public limited company.

**C The Role of the Board**

7. The Board will meet sufficiently regularly to discharge its duties effectively.	A.1.1.
8. There will be a formal schedule of matters specifically reserved for decision by the Board. It will be clear to all members of the Board what decisions the Board is responsible for, and what exceptions there are to this. Exceptions, such as matters reserved for the Board of Anglian Water Group Limited, will be clearly documented.	A.1.1./ Ofwat
9. 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. The annual report will also set out those matters which are reserved to the Board of Anglian Water Group Limited.	A.1.1./ Ofwat
10. Final decisions on issues dealt with by each of the committees will be made by the Board.	
11. The annual report will identify the Chairman, the Chief Executive, the senior independent director and the Chairmen and members of the Board committees. It will also set out the number of meetings of the Board and those committees and individual attendance by directors.	Ofwat
12. The Company will arrange appropriate insurance cover in respect of legal action against its directors.	A.1.2.
<b>D Division of Responsibilities</b>	
13. The roles of Chairman and Chief Executive will not be exercised by the same individual. The division of responsibilities between A.2.1. the Chairman and Chief Executive will be clearly established, set out in writing and agreed by the Board.	A.1.3.

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**E The Chairman**

14. The Chairman will be independent of investors and will not be linked in any way to a shareholder. However, the Chairman may also chair the board of the Anglian Water Group Limited.	Ofwat
15. The Chairman will not be a former executive director of the Company or another group company.	Ofwat
16. A Chief Executive will not go on to be Chairman of the same Company.	A.3.1.
17. The Chairman will otherwise meet the independence criteria set out in paragraph 29 below and will therefore be regarded as an independent non-executive director for the purposes of determining the composition of the Board.	Ofwat

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**F Independent Non-executive Directors**

18. The Board will appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the Chairman and to serve as an intermediary for the other directors when necessary.	A.4.1.
19. The senior independent director will be available to shareholders of the group if they have concerns which contact through the normal channels of Chairman, Chief Executive or other executive directors has failed to resolve or for which such contact is inappropriate.	A.4.1.
20. The Chairman will hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors will meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.	A.4.2.
21. Where directors have concerns which cannot be resolved about the running of the Company or a proposed action, they will ensure that their concerns are recorded in the Board minutes.	A.4.3.
22. On resignation, a non-executive director will provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.	A.4.3.
	A.4.3.

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**G Composition of the Board**

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| <p>23. Independent non-executive directors will be the largest single group on the Board, compared to (i) executive directors and (ii) non-executive directors who are not independent.</p> <p>24. The number of investor representatives who are directors of the Company should be no greater than the number of independent non-executive directors (excluding an independent Chairman).</p> <p>25. There will be fewer executives than independent non-executive directors on the Board.</p> <p>26. Alternates will not routinely attend and vote at Board meetings in place of directors.</p> <p>27. The Board will identify in the annual report each non-executive director it considers to be independent.</p> <p>28. 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.</p> <p>29. 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:</p> <ul style="list-style-type: none"><li>• has been an employee of the Company or group within the last five years;</li><li>• 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;</li><li>• 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;</li><li>• has close family ties with any of the Company's advisers, directors or senior employees;</li><li>• holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;</li><li>• represents a significant shareholder; or</li><li>• has served on the Board for more than nine years from the date of their first election.</li></ul> | B.1.1. |
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**H The Role and Composition of the Nomination Committee**

30. There will be a Nomination Committee which will lead the process for Board appointments and make recommendations to the Board.	B.2.1.
31. A majority of members of the Nomination Committee will be independent non-executive directors.	B.2.1.
32. The Nomination Committee will be led by an independent non-executive director.	Ofwat
33. The focus of the Nomination Committee will be the aims and needs of the Company.	Ofwat
34. The Nomination Committee will make available its terms of reference, explaining its role and the authority delegated to it by the Board	Ofwat
35. The Nomination Committee will evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.	B.2.1.
36. 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.	B.2.2.
37. 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.	B.2.4.
38. 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.	B.2.4.
39. 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.
	B.2.4.

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**H Appointments to the Board (INEDs)**

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| 40. Non-executive directors will be appointed for specified terms and may be removed following a decision to this effect taken by the shareholders of Anglian Water Group.               | B.2.3.<br>Amended |
| 41. Any term beyond six years for a non-executive director will be subject to particularly rigorous review, and will take into account the need for progressive refreshing of the Board. | B.2.3.            |
| 42. The terms and conditions of appointment of non-executive directors will be made available on the Company's website.  | B.3.2.            |
| 43. The letter of appointment will set out the expected time commitment.   | B.3.2.            |

**H Appointments to the Board (Chairman)**

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| 44. 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 crises.   | B.3.1. |
| 45. 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. |

**H Appointments to the Board (Shareholder Approval)**

46. The shareholders of Anglian Water Group will be entitled to approve the appointment to the AWS Board of the Chairman, B.7.1 the Chief Executive Officer of the group, the Chief Financial Amended Officer of the group and any independent non-executive directors of the Company.

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**I Commitment**

47. Non-executive directors will undertake that they will have sufficient time to meet what is expected of them.	B.3.2.
48. 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.
49. The Board will not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 Company nor the Chairmanship of such a Company.	B.3.3.

**J Development**

50. The Chairman will ensure that new directors receive a formal and tailored induction on joining the Board. As this, directors will avail themselves of opportunities to meet major shareholders.	B.4.1.	full, part of meet
51. The Chairman will regularly review and agree with each director their training and development needs.	B.4.2.	director

**K Information and Support**

52. 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.	B.5.1.
53. Committees will be provided with sufficient resources to undertake their duties.	B.5.1.
54. 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.
55. Both the appointment and removal of the Company Secretary will be a matter for the Board as a whole.	B.5.2.

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**L Board and Committee Evaluation**

56. 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.
57. Where an external facilitator is used for the purposes of Board evaluation, 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. Amended
58. The non-executive directors, led by the senior independent director, will be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.	B.6.3.

**M Financial and Business Reporting**

59. The directors will explain in the annual report their responsibility for preparing the annual report and state that they consider the annual report and taken as a whole, is fair, balanced and understandable provides the information necessary for shareholders to Company's performance, business model and strategy.	C.1.1.	accounts, accounts, and assess the
60. There will be a statement by the auditor about their responsibilities.	C.1.1.	reporting
61. The directors will include in the annual report an explanation of the basis on which the Company or preserves value over the longer term (the business and the strategy for delivering the objectives of the	C.1.2.	generates model) Company.
62. The directors will report in annual and half-yearly financial statements that the business is a going concern, with C.1.3. supporting assumptions or qualifications as necessary.		

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**N Risk Management and Internal Control**

63. The Board will, at least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems and will report to shareholders that they have done so.

C.2.1.

64. The review will cover all material controls, including financial, operational and compliance controls.

C.2.1.

**O Audit Committee and Auditors**

65. The Board will establish an Audit Committee of at least three independent non-executive directors. Independent nonexecutive directors will be the majority group on the Audit Committee.

C.3.1.  
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66. The Audit Committee will be led by an independent non- executive director.

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67. The Company Chairman may be a member of, but not chair, the Audit Committee in addition to the independent nonexecutive directors, provided that he or she is considered independent.

68. The Board will satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience.

C.3.1.  
Amended

C.3.1.

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C.3.2.

C.3.3.

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69. The main role and responsibilities of the Audit Committee will be set out in written terms of reference and will include:
- monitoring 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;
  - reviewing 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, reviewing the Company's internal control and risk management systems;
  - monitoring and reviewing the effectiveness of the Company's internal audit function;
  - making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
  - reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
  - developing and implementing 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 reporting 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
  - reporting to the Board on how it has discharged its responsibilities.
70. The terms of reference of the Audit Committee, including its role and the authority delegated to it by the Board, will be made available on the Company's website.
71. 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 performance, business model and strategy.

C.3.4.



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78. Where the reward of directors of the Company is awarded or paid at a higher level in the ownership structure, the Company will make full disclosure in its annual report and account in the spirit of having full transparency of remuneration structures and incentives.	Ofwat
79. Where a 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.
80. Levels of remuneration for non-executive directors will reflect the time commitment and responsibilities of the role.	
81. Remuneration for non-executive directors will not include share options or other performance-related elements.	D.1.3.
82. 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.	D.1.3.
83. The Remuneration Committee will take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.	D.1.4.
84. Notice periods will be set at one year or less.	D.1.4.
	D.1.5.

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**Q Remuneration Committee**

85. The Board will establish a Remuneration Committee of at least two, independent non-executive directors. Independent nonexecutive directors will be the majority group on the Remuneration Committee.	D.2.1. Ofwat
86. The Remuneration Committee will be led by an independent non-executive director.	Ofwat
87. The focus of the Remuneration Committee will be the aims and needs of the Company.	Ofwat
88. The Remuneration Committee will make available its terms of reference, explaining its role and the authority delegated to it by the Board on the Company's web-site	D.2.1.
89. 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.
90. The Remuneration Committee will have delegated responsibility for reviewing remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. The Remuneration Committee will then make recommendations to the Board for approval.	D.2.2. Amended
91. The Remuneration Committee will also recommend and the level and structure of remuneration for senior management.	D.2.2.
92. The definition of 'senior management' for this purpose determined by the Board but will normally include the of management below Board level.	D.2.2.
93. In accordance with the Company's Articles of Association, the shareholders of the Company will determine the remuneration of the independent non-executive (following recommendation by the Board).	D.2.3. Amended
94. The shareholders of Anglian Water Group will be entitled to approve all new long-term incentive schemes and changes to existing schemes.	D.2.4. Amended