

BRISTOL WATER PLC (the "Company").
TERMS OF REFERENCE FOR THE AUDIT & RISK ASSURANCE
COMMITTEE

1. CONSTITUTION

- 1.1 The committee has been established by resolution of the board of directors of the Company (the "Board") and is to be known as the Audit & Risk Assurance Committee ('Committee').

2. PURPOSE

- 2.1 The Audit & Risk Assurance Committee is a sub-committee of the Board, which focuses on the Company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements and on aspects of financial reporting.
- 2.2 In meeting this objective, the Committee assists the Board with the oversight of:
- 2.2.1 the integrity of the Company's financial statements,
 - 2.2.2 the Company's compliance with legal, ethical and regulatory requirements,
 - 2.2.3 the external auditors' qualifications and independence;
 - 2.2.4 the performance of the external auditors,
 - 2.2.5 the design, planning and performance of the Company's internal audit function; and
 - 2.2.6 the adequacy of the Company's Risk Management system.

3. MEMBERSHIP

- 3.1 The members of the Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of at least three members. A majority of the members of the Committee shall be independent non-executive directors in the view of the Board.
- 3.2 At least one member of the Committee shall have recent and relevant financial experience.
- 3.3 The Board shall appoint a chair of the Committee (the "Chair") and shall decide his period of office. The Chair shall be an independent non-executive director and shall not be the Chairman of the Company.
- 3.4 Each of the current shareholders in CSE Water UK Limited (namely iCON III Bristol Limited (iCON Bristol), iCON III Water Investments Limited (iCON Water) and I-Environment Investments Limited (Itochu)) is entitled to appoint a member of the Committee. However, Itochu shall be entitled to appoint one representative to the Committee for so long as there is at least one representative appointed by a shareholder other than Itochu.
- 3.5 The Board shall regularly review the membership of the Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals as regards membership of the Committee and other Board committees.

4. QUORUM

- 4.1 A quorum shall be two members of which one must be an independent non-executive director appointed to the Committee. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. ATTENDANCE AT MEETINGS

- 5.1 No one other than the Committee Chair and members is entitled to be present or vote at a meeting of the Committee.
- 5.2 The chairman of the Company, chief executive, finance director, head of internal audit (if any) and a representative of the external auditors may be called upon or shall be able to speak at any meeting of the Committee by prior arrangement with the Chair. The Committee may call upon any employee of the Company or any Group company to attend and speak at any meeting of the Committee.
- 5.3 There should be at least one meeting, or part of a meeting, each year which the external auditors attend without management present.

6. SECRETARY

- 6.1 The Company Secretary shall act as the secretary of the Committee ("Secretary").

7. FREQUENCY OF MEETINGS

- 7.1 Meetings shall be held at such times as the Committee deems appropriate, and in any event shall be held not less than three times a year. Where appropriate, meetings should coincide with key dates in the company's financial reporting cycle.
- 7.2 External auditors or internal auditors may request a meeting if they consider that one is necessary.

8. PROCEEDINGS

- 8.1 Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the Company's Articles of Association regarding the meetings, proceedings and voting rights of directors.
- 8.2 Meetings of the Committee shall be summoned by the Secretary at the request of any member thereof.
- 8.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Committee not later than 72 hours (where possible) prior to the date of the meeting.
- 8.4 The Secretary shall record the proceedings and resolutions of meetings of the Committee and shall circulate the minutes of such meetings to all members of the Committee and to all members of the Board.
- 8.5 In the absence of the Committee Chair and/or an appointed deputy, those members present shall elect one of their number to chair the meeting. Only an independent non-executive director can chair the meeting.

9. AUTHORITY

- 9.1 The Committee is authorised by the Board at the expense of the Company to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee in order to perform its duties and all employees are directed to cooperate with any request made by the Committee.
- 9.2 The Committee is authorised by the Board at the expense of the Company to obtain external professional advice and to secure the attendance of third parties with relevant experience and expertise at meetings of the Committee if it considers this necessary.
- 9.3 These terms of reference may be amended from time to time as required, subject to approval by the Board. These terms of reference will be reviewed every two years.

10. DUTIES

The responsibilities of the Committee shall be:

10.1 Financial reporting

- 10.1.1 It is the Board's responsibility to ensure that the Annual Report, taken as a whole, is fair, balanced and understandable.
- 10.1.2 It is the responsibility of the Committee to support the Board by giving them assurance that the Annual Report, taken as a whole is fair, balanced and understandable.
- 10.1.3 The Committee responsibility includes the requirement to review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements (including preliminary announcements and any other related formal statements) before submission to the Board, paying particular attention to:
- (A) critical accounting policies and practices, and any changes in them;
 - (B) decisions requiring a major element of judgement;
 - (C) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - (D) the clarity of disclosures;
 - (E) significant adjustments resulting from the audit;
 - (F) the going concern assumption;
 - (G) compliance with accounting standards;
 - (H) compliance with the Code of Corporate Governance and additional disclosure requirements included within the FSA Listing Rules, in support of the Company's adherence to the relevant Licence conditions;
 - (I) reviewing the company's statement on internal control systems prior to endorsement by the board and to review the policies and process for identifying and assessing business risks and the management of those risks by the company;

- (J) dividend policy and levels; and
- (K) major restructuring or borrowing.

10.2 Other Legal and Ethical Requirements

- 10.2.1 To review and approve the Company's Ethical Policy.
- 10.2.2 To receive a report in the event of any failure to apply normal procurement rules or procedures in respect of any contract or commercial arrangement entered into by the Company (or one of its subsidiaries) with any third party.
- 10.2.3 To review the Company's procedures for handling allegations from whistle-blowers in order to ensure that arrangements are in place and are followed for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- 10.2.4 To review the Company's policies for preventing or detecting fraud.
- 10.2.5 To review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the Company.
- 10.2.6 To review the Company's policies for ensuring that the Company complies with relevant regulatory and legal requirements.

10.3 Regulatory reporting

- 10.3.1 To ensure that major regulatory returns/reports to Ofwat including (inter alia):
 - (A) price setting business plans;
 - (B) the June return or its replacement submissions; and
 - (C) regulatory accounts

are subject to appropriate levels of scrutiny by the Committee and/or the Board.

10.4 External audit appointments and performance

- 10.4.1 To consider the appointment of the external auditor and assess the independence and objectivity of the external auditor, ensuring that key parties are rotated at appropriate intervals.
- 10.4.2 To recommend the audit fee to the board and approve any fees in respect of non-audit services provided by the external auditor and to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- 10.4.3 To develop and implement a policy for the engagement of the external auditors in respect of the supply of non-audit services if required, taking into account the UK and international requirements. The policy will include consideration of the scale and the nature of the fees and whether the external auditors are to be excluded from any categories of non – audit work.
- 10.4.4 To ensure that proper disclosure is made in the annual report of how the Committee's policy in relation to non-audit fees paid to auditors adequately

safeguards the independence of the auditor and that proper disclosure is made of all fees paid to the external auditor.

- 10.4.5 To discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- 10.4.6 To oversee the process for selecting the external auditor, to review their terms of appointment and make appropriate recommendations through the board to the shareholders to consider at the AGM.
- 10.4.7 To review the external auditor's management letter and any major recommendations of the external auditor and to consider management's response.
- 10.4.8 To review and other reports on the effectiveness of systems for internal financial control and financial reporting generated by the External Auditor.
- 10.4.9 To review co-ordination between the internal audit function and the external auditors.

10.5 Internal audit design, planning and performance

- 10.5.1 To maintain an Internal Audit strategy, which is designed to help the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, control and governance processes.
- 10.5.2 To propose the allocation of the correct resources to Internal Audit, both internal or external, to ensure that the function possesses the necessary balance of skills and knowledge (both technical and of the business) to form an effective Internal Audit function, that has appropriate standing within the company.
- 10.5.3 To set the internal audit assignment programme, with consideration of the Company's risk profile.
- 10.5.4 To review reports on the effectiveness of systems for internal financial control, financial reporting and risk management generated by the Internal Auditor function.
- 10.5.5 To consider management's response to any major internal audit recommendations and to review annually all internal audit recommendations to ensure appropriate follow up.

10.6 Risk Assurance

- 10.6.1 The Board retains responsibility for setting the organisation's risk policies, attitude to risk and risk appetite, together with ensuring that controls are in place to manage risk.
- 10.6.2 It is the responsibility of the Committee to support the Board by giving Assurance that the risk policies, attitude to risk and risk appetite, together with the associated controls and risk reporting, are appropriately defined, communicated and operated.

10.7 Other

- 10.7.1 To review the controls and management systems which monitor and ensure the compliance with the Artesian facility covenant requirements.
- 10.7.2 To consider other topics, as defined by the Board.

10.8 Limitation of scope

- 10.8.1 The Committee is a sub-committee to the Board of Bristol Water plc.
- 10.8.2 It is not responsible for the accounts or audit of Bristol Water Holdings UK Ltd or its other subsidiaries.
- 10.8.3 The Committee is also not responsible for the conversion (for accounting policies and accounting years) of Bristol Water plc results into IFRS (IASB) for the purpose of group reporting and for the subsequent incorporation into ICON or Itochu consolidated reports. In specific circumstances the Committee can be asked to review the non-statutory accounts of the Company prepared under IFRS.

11. REPORTING PROCEDURES

- 11.1 The Chair of the Committee or another member of the Committee shall attend the Board meetings at which the published accounts and any other formal financial statements are approved.
- 11.2 Where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.
- 11.3 The Committee members shall conduct an annual review of changes in the governance environment surrounding the scope and operation of Committees and make recommendations to the Board.
- 11.4 The Committee's duties and activities during the year shall be disclosed in the annual financial statements along with details of the review of the internal audit function. The Report shall include:
 - 11.4.1 an explanation of how it has assessed the effectiveness of the external audit process;
 - 11.4.2 the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
 - 11.4.3 the approach taken to the appointment or reappointment of the external auditor,
 - 11.4.4 information on the length of tenure of the current audit firm and when a tender was last conducted; and
 - 11.4.5 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- 11.5 In the event that a shareholder other than the immediate holding company is entitled to attend an AGM, The Chair of the Committee shall attend the AGM and shall answer questions, through the Chair of the Board, on the Committee's activities and their responsibilities.

- 11.6 If the Board has taken a contrary view to the Committee's recommendation concerning the appointment, re-appointment and removal of the external auditors, the Committee will insert a statement concerning the appointment, re-appointment and removal of the external auditors into the annual report and any papers relating to such matters. Such a statement will explain their recommendation on the subject and why the Board has taken a contrary view.

Approved by the Board on 22 February 2018