

AWS Audit and Risk Committee (the “Committee”)

TERMS OF REFERENCE

Purpose

1. The purpose of the Committee is to assist the Boards of Anglian Water Services Limited (“AWS”) and Anglian Water Group Limited (“AWG”) to discharge effectively their duties and responsibilities in respect of AWS (the “Company”) relating to financial reporting of a statutory and regulatory nature, internal controls, risk management, and the application of appropriate accounting policies and practices. The Committee does not relieve the Boards of their responsibilities for these matters.

Membership

2. The Committee shall comprise at least three independent non-executive directors and shall include at least one member of the Remuneration Committee. All members of the Committee shall comprise independent non-executive directors. The members of the Committee (including the Chair) shall be appointed by the Company’s Board, on the recommendation of the Nomination Committee. The appointment of Committee members (including the Committee chair) also requires the approval of the Board of AWG. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chair of the Board, Chief Executive Officer, Chief Financial Officer, Finance Director - AWS, members of the AWG Audit Committee, other directors, the Head of Internal Audit, and representatives from the finance and risk functions may be invited to attend all or part of any meeting as and when appropriate.
3. The Committee as a whole shall have competence relevant to the sector in which the Company operates. At least one member of the Committee shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies and other members shall have the requisite financial as well as risk management knowledge and experience to provide appropriate challenge. The Chair of the Board shall not be a member of the Committee.
4. Representatives of the external auditor will be invited to attend all or part of meetings of the Committee, but will be absent from any discussions around their performance.
5. The Company’s Board shall appoint the Committee Chair in consultation with the Nomination Committee who shall be an independent non-executive director¹. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Secretary

6. The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues. Oversight of all key required financial and regulatory approvals will be maintained.

¹ An independent non-executive director is defined in provision 10 of the 2024 UK Corporate Governance Code

Quorum

7. The quorum necessary for the transaction of business shall be two members. 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.

Frequency of Meetings

8. The Committee shall hold sufficient meetings as its role and responsibilities require, which ordinarily shall not be less than four times each year, at appropriate times in the reporting, regulatory and audit cycle and otherwise as required.
9. Outside of the formal meeting programme, the Committee Chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in AWS's governance, including the Chief Executive Officer, the Chief Financial Officer, the Legal Director, the Head of Internal Audit, the Head of Risk and the lead partner of the external auditor.

Notice of Meetings

10. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of the external auditor if they consider it necessary.
11. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
12. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

Minutes of Meetings

13. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
14. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
15. Minutes of Committee meetings shall be agreed with the Committee Chair and circulated prior to the following meeting to all members of the Committee.

Duties

16. The Committee should carry out the duties below for the Company, and the AWS Financing Group companies (Anglian Water Services Holdings Limited, Anglian Water Services UK Parent Co Limited and Anglian Water Services Financing plc) as a whole, as appropriate.

Financial Reporting

17. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim results, preliminary announcements reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review the Annual Performance Report, and significant financial returns to regulators.
18. The Committee shall specifically review the external auditor's significant issues and clearance reports for the Company in relation to the interim and preliminary results with particular emphasis on the following and advise the Board if it is not satisfied with any aspect of the Company's proposed financial reporting:
 - the major issues which arose during the audit review;
 - level of errors identified during the audit;
 - the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - The clarity and completeness of disclosures in the financial statements, including the strategic report, the corporate governance statement relating to audit, internal controls and risk statements, the viability statement together with the context in which those statements are made;
 - The appropriateness of the going concern assumption;
 - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments; and
 - Whether the process undertaken to ensure that Directors are able to make the statement required by section 418 Companies Act 2006 in respect of relevant audit information.

Narrative reporting

19. Where requested by the Board, the Committee should review the content of the Annual Integrated Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters.

Internal Controls and Risk Management Systems

20. The Committee shall:
 - (i) keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks and other material risks, as decided upon by the Company's Board, and material operational internal controls and risk management systems;
 - (ii) develop, and keep under review, an Audit and Assurance Policy;

- (iii) commission internal audit reviews on both risks and controls to ensure that the Board has a sufficient basis on which to make its annual declaration on the effectiveness of risk management and material controls¹ (seeking further external assurance where the Committee deems it appropriate to do so);
- (iv) oversee the framework for assessing the effectiveness of internal control systems in relation to material controls (including, but not limited to, approving the scope and prioritisation of the internal audit programme);
- (v) following approval by the Board of the Risk Management Policy review the effectiveness of the risk management framework and associated policies;
- (vi) oversee the effectiveness of material controls including (but not limited to) those related to:
 - a. financial risks (e.g. fraud);
 - b. legal risks (e.g. data protection and litigation);
 - c. IT risks (e.g. cyber security);
 - d. reporting (e.g. integrity of reporting); and
 - e. reputational (e.g. bribery).
- (vii) recommend any interventions necessary to improve the effectiveness of material controls in relation to the risks in 20 (v) and any other category of material risk that may be identified from time to time.
- (viii) review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement; and
- (ix) Commission independent audits in respect of the Enterprise Risk Management framework, as deemed appropriate.

Compliance, whistleblowing and fraud

21. The Committee shall:

- (i) review the adequacy and security of the Company's arrangements for its employees, alliance partners and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (ii) review the company's procedures for detecting fraud;
- (iii) review the company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- (iv) review regular reports from the Group Legal Director regarding potential and actual litigation involving the Company.

¹ From financial year beginning 1 April 2026.

Internal Audit

22. The Internal Head of Audit and Head of Risk shall have direct access to the Chair of the Committee. The Committee shall:
- i) in conjunction with the AWG Audit Committee, recommend decisions regarding the appointment and removal of the Head of Internal Audit and the Head of Risk to the Board;
 - ii) monitor and review the effectiveness of the Company's Group Internal Audit function in the context of the Company's overall risk management system;
 - iii) review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out;
 - iv) review and approve the internal audit budget and resource plan;
 - v) make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations to enable the Group Internal Audit function to fulfil its mandate, ensure there is open communication between different functions and that Group Internal Audit evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that Group Internal Audit is equipped to perform in accordance with appropriate professional standards for internal auditors.
 - vi) carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
 - a. meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the function;
 - b. review and assess the annual internal audit work plan and recommend its approval to the Board;
 - c. receive a report on the results on the Group Internal Audit function's work;
 - d. determine whether it is satisfied that the quality, experience and expertise of the Group Internal Audit function is appropriate for the business; and
 - e. review the actions taken by management to implement the recommendations of the Group Internal Audit function and to support the effective working of the internal audit function;
 - vii) monitor and assess the role and effectiveness of the Group Internal Audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor;
 - viii) consider whether an independent, third party review of process is appropriate; and
 - ix) approve the Internal Audit Charter.

External Audit

23. The Audit Committee of AWG will retain responsibility, to consider and make recommendations to the Board, to be put to shareholders for consideration, in relation to the appointment, re-appointment and removal of the Company's external auditor. If an auditor resigns, the AWG Audit Committee shall investigate the issues leading to this and decide whether any action is required.
24. The Committee will:
- i) ensure that the external auditor has full access to company staff and records; and
 - ii) invite challenge by the external auditor, giving due consideration to points raised and making changes to financial statements in response, where appropriate.

Tendering for the External Audit

25. The group will put the external audit out to tender at least every ten years and will rotate the auditor every 20 years. The Committee will support the AWG Audit Committee in running the tendering process, including its initiation, influencing the appointment of an engagement partner, negotiating the fee and scope of the audit, and making formal recommendations to the Board on the appointment. The Committee may request support from employees of the Company for research and evaluation purposes.
26. The Committee will work with the AWG Audit Committee to ensure that:
- i) a price blind tender is considered;
 - ii) an external audit tender is conducted far enough in advance of the appointment for firms to exit relationships which may cause a conflict of interest that would otherwise prohibit them from tendering;
 - iii) the external auditor selection criteria is transparent and non-discriminatory;
 - iv) all tendering firms have the necessary access to information and individuals;
 - v) all tenders will be given fair and objective consideration²;
 - vi) the choice of auditor is based on quality, including independence, challenge and technical competence (and not price or perceived cultural fit);
 - vii) the FRC's report (and where relevant other regulators, including those overseas) on the quality of each firm's audit, as well as the audit quality indicators published by firms and/or the FRC, is reviewed and informs the Committee's final recommendation on the appointment of the external auditor to the Board;

² The tendering process must not preclude the participation of firms other than the four largest audit firms without good reason. The Committee should ensure that the Company has a sufficient number of potential auditors that are independent (or capable of becoming so) to allow for adequate competition and choice in a subsequent tender.

- viii) all Committee members are actively involved throughout the tender process in its entirety;
- ix) at least two possible audit firms will be selected for engagement and recommended to the Board, together with the Committee's justified preference for one of them;
- x) eligible firms that choose not to tender for the group's external audit will be contacted to understand why they are unwilling to tender and whether the Committee should seek to address any associated issues (and to understand through discussions with those firms why it would be in the public interest to do so). The Committee will notify eligible firms that refuse to tender that they may be ineligible to bid for non-audit services work as a result; and
- xi) there is clear rationale for excluding firms from tendering on the grounds that they would not be able to perform a high-quality audit.

Oversight of External Auditors and Audit

27. The Committee will develop and oversee the relationship with the external auditor in respect of the Company. This includes but is not limited to:
- i) approving of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - ii) assessing annually their independence and objectivity taking into account relevant UK law, regulation and other professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
 - iii) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - iv) agreeing with the Board a policy on the employment of former employees of the auditor, taking into account FRC requirements and legal requirements, and monitor the application of the policy;
 - v) monitoring the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation and other professional requirements including the guidance on the rotation of audit partner and staff;
 - vi) monitoring the level of fees paid by the Company to the auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements and guidance;
 - vii) assessing annually their qualifications, expertise and resources and independence of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;

- viii) seeking to ensure coordination of the external audit with the activities of the internal audit function;
 - ix) evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
 - x) inviting challenge by the external auditor, giving due consideration to points raised and making changes to financial statements in response, where appropriate; and
 - xi) reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements; developing the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit services to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements and to ensure that the Company has a fair choice of suitable auditors at the next tender and in light of the need for greater market diversity and any market opening measures that may be introduced.
28. The Committee will meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once a year, meet with the auditor without management being present, to discuss the auditor's remit and any issues arising from the audit.
29. The Committee will review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
30. The Committee will review the effectiveness and quality of the external audit, through consideration of the external auditor's mind-set and culture; skills, character and knowledge; quality control; and judgment, including the robustness and perceptiveness of the external auditor in handling key judgements, responding to questions from the Committee, and in their commentary where appropriate on the systems of internal control. The Committee will discuss with the external auditor the factors that could affect audit quality and review and approve the Company's annual audit plan, ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise of the audit team.
31. The Committee will discuss with the external auditor the key audit firm and network level controls the auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm.
32. The Committee will review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- i) whether the external auditor has met the agreed audit plan and understand the reasons for any changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
 - ii) a discussion of any major issues which arose during the audit;

- iii) the auditor's explanation of how the risks to audit quality were addressed;
 - iv) key accounting and audit judgements;
 - v) the auditor's view of their interactions with senior management; and
 - vi) levels of errors identified during the audit.
33. The Committee will review any representation letter(s) requested by the external auditor before they are signed by management; The Committee will review the management letter and any other communications with the Committee to assess whether it is based on a good understanding of the Company's business and management's response to the auditors findings and recommendations.
34. The Committee will review evidence of the effectiveness of the audit process³, including an assessment of the quality of the audit, the handling of key judgements by the auditor, feedback from key personnel impacted by the audit⁴ the auditor's response to questions from the Committee.

Reporting Responsibilities

35. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and shall also formally report to the Board on how it has discharged its responsibilities.
36. The Committee shall compile a report on its activities to be included in the Company's Annual Integrated Report, specifically including:
- i) A summary of the role of the Committee and the names and qualifications of all members of the Committee during the period;
 - ii) The number of Committee meetings and the way the Committee has discharged its responsibilities;
 - iii) The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor;
 - iv) How the policy for non-audit services was applied to safeguard the external auditor's objectivity and independence;
 - v) How the Committee reached its recommendation to the Board on the appointment, re-appointment or removal of the external auditors, with supporting information on tendering frequency, the existing tenure and any contractual obligations that acted to restrict the Committee's choice of external auditor; and
 - vi) an explanation of how the Committee has addressed the effectiveness of the external audit process.

³ The Committee will undertake an evaluation of the external audit with reference to the *Audit Committees and the External Audit: Minimum Audit Standard*.

⁴Feedback on the conduct of the external audit should be sought from key colleagues including (but not limited to) the Chief Financial Officer, AWS's Finance Director and the Head of Internal Audit. The Committee should consider the extent to which the external auditor relied on Internal Audit.

Other Matters

37. The Committee shall:

- i) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- ii) give due consideration to laws and regulations, the provisions of the Company's Corporate Governance Code, and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- iii) oversee any investigation of activities which are within its terms of reference; and
- iv) review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Authority

38. The Committee is authorised to:

- i) seek any information it requires from any employee of the Company in order to perform its duties;
- ii) obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- iii) call any employee to be questioned at a meeting of the Committee as and when required; and
- iv) have the right to publish in the Company's Annual Integrated Report, details of any issues that cannot be resolved between the Committee and the Board.