

MODERN WATER PLC
(the “Company”)

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

In these Terms of Reference the following terms shall have the following meanings:

“**Board**” means the Board of Directors of the Company;

“**Committee**” means the Audit Committee of the Company;

“**Directors**” means directors of the Company from time to time.

1 Introduction

These Terms of Reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK guidance on corporate governance and to assist the Committee in achieving best practice in corporate governance for the Company and its subsidiaries (the “**Group**”).

2 Membership and Attendance

- 2.1 The Committee shall be appointed by the Board from amongst the Directors and shall be made up of at least three members, of which at least two shall be independent non-executive Directors. At least one member of the Committee shall have recent and relevant financial experience.
- 2.2 The Board shall appoint the Committee chairman who shall be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair any meeting of the Committee. The chairman of the Board shall not be eligible to be appointed as chairman of the Committee, but may be a member of the Committee if he or she was independent on appointment as chairman of the Board.
- 2.3 Only members of the Committee shall have the right to attend and vote at Committee meetings. However, other individuals such as the chairman of the Board, the Company’s Chief Executive Officer, its Group Financial Controller, other Directors, external advisers, and representatives from the finance and compliance functions of the Company may be invited to attend for all or part of any meeting as and when appropriate.
- 2.4 The Committee may ask the external auditor to attend meetings of the Committee on a regular basis and will meet with the auditors at least once a year.
- 2.5 Members of the Committee shall be appointed by the Board for an initial term of three years, which may be extended for no more than two additional three-year periods.

3 Secretary

- 3.1 The Company’s company secretary or his or her nominee shall act as the secretary of the Committee (“**Secretary**”).
- 3.2 The Secretary shall also act as a co-ordinating intermediary between the Board and the Committee.

4 Quorum

The quorum necessary for the transaction of business shall be two. 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 Frequency of Meetings

The Committee shall meet at least twice a year at appropriate times in the reporting and auditing cycle and at such other times as the chairman of the Committee shall require. Meetings should be organised so that attendance is maximised.

6 Notice of Meetings and Proceedings at Meetings

- 6.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors of the Company, no fewer than five working days prior to the date of the meeting. An agenda of items to be discussed and supporting papers shall be sent to Committee members and to other attendees as appropriate in a timely manner to enable proper consideration to be given to the issues.
- 6.3 Meetings of the Committee may be conducted when the members are physically present or in the form of either video or audio conferences.
- 6.4 The chairman of the Committee should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and the Secretary shall minute them accordingly.

7 Minutes of Meetings

- 7.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings (including the names of those present and in attendance) and shall ensure the Committee is properly constituted and advised.
- 7.2 Minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all other members of the Board, unless a conflict of interest exists.

8 Annual General Meeting

The chairman of the Committee (or in his absence another member of the Committee) shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

9 Duties

9.1 Internal Control and Risk Assessment

- 9.1.1 The Committee shall keep under review the effectiveness of the Group's financial reporting and internal control policies and procedures for the identification, assessment and reporting of financial and business risks and the management of those risks by the Company. It shall consider the major findings of internal investigations and the response of management thereto.
- 9.1.2 The Committee shall review internal controls and risk management systems.

9.2 Internal Audit

- 9.2.1 The Company does not currently have an internal audit function and the absence of such a function shall be explained in the Company's annual report. The decision on whether or not to set up an internal audit function will be made by the Board, on the recommendation of the Committee (which shall consider annually whether there is a need for an internal audit), based on the growth of the Company, the scale, diversity and complexity of the Company's activities and the number of employees, as well as cost/benefit considerations. If the Board decides to set up an internal audit function, the Committee shall monitor and review the effectiveness of this function.

9.3 External Audit

- 9.3.1 The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, as regards the appointment, re-appointment and removal of the Company's external auditor, as well as any questions relating to their resignation, and shall ensure that key partners within the appointed firm are rotated from time to time. The Committee shall oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.

- 9.3.2 The Committee shall oversee the relationship with the external auditor including (but not limited to):

- (a) approval of their remuneration, whether fees for audit or non-audit services, and ensure that the level of fees is appropriate to enable an adequate audit to be conducted;
- (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of each audit;
- (c) reviewing and monitoring their independence and objectivity and the effectiveness of the audit process taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (d) reviewing and approving the nature and amount of any non-audit work to ensure that such work does not impair the auditor's independence and objectivity;
- (e) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (f) agreeing with the Board a policy on the employment of former employees of the Company's external auditor and monitoring the implementation of that policy;
- (g) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business); and
- (h) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.

- 9.3.3 The Committee shall:

- (a) meet the external auditor regularly and at least twice a year: once at the planning stage, where the nature and scope of the audit will be considered, and once post audit at the reporting stage. The Committee shall meet the external auditor without management being present, to discuss their remit and any issues arising from the audit;

- (b) review the findings of the audit with the external auditor. This shall include but not be limited to discussing any major issues resulting from the audit, accounting and audit judgments and levels of errors identified during the audit;
- (c) review any representation letter(s) request by the external auditor before they are signed by management, review any responses to the external auditor's findings and recommendations and take responsibility for the resolution of any disagreements between management and the external auditor; and(d) review the policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter and report to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

9.3.4 The Company's policy for the provision of non-audit services by its external auditors is that such non-audit services may only be provided where (1) auditor objectivity and independence may be securely safeguarded and (2) where the fees payable either in respect of the assigned work or overall in any year do not exceed the amount of fees payable in respect of its audit work. The Group Financial Controller monitors and reports the level and nature of non-audit services for approval by the Committee.

9.4 Financial Statements

9.4.1 The Committee shall:

- (a) monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- (b) keep under review the consistency of accounting policies both on a year-to-year basis and across the Group.
- (c) review and challenge where necessary the Company's financial statements before submission to the Board taking into account:
 - (i) decisions requiring a major element of judgment;
 - (ii) the extent to which the financial statements are affected by any unusual or significant transaction;
 - (iii) the clarity of disclosures;
 - (iv) significant adjustments resulting from the audit;
 - (v) the going-concern assumption;
 - (vi) compliance with relevant accounting standards; and
 - (vii) compliance with the AIM Rules for Companies, legal requirements and all applicable codes of corporate governance practices.
- (d) review the Company's statement on internal control and risk management systems prior to endorsement by the Board and inclusion in the Company's annual report.
- (e) review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

10 Reporting Responsibilities

- 10.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall compile a formal report to shareholders on its activities to be included in the company's annual report. Such a report shall include an explanation of how, if the external auditor provides non-audit services to the Group, auditor objectivity and independence is safeguarded.
- 10.4 The Committee shall make available to shareholders these Terms of Reference by placing them on the Company's website.

11 Other Matters

- 11.1 The Committee shall have access to sufficient resources, including adequate information (provided by the Board on a proactive as well as a reactive basis) in order to carry out its duties, including access to the Company Secretary for assistance as required.
- 11.2 The Committee shall be responsible for co-ordination of the external auditors and, if and when appointed, the internal auditors.
- 11.3 The Committee shall give due consideration to relevant laws and regulations, the provisions of the London Stock Exchange's AIM Rules for Companies, as appropriate.
- 11.4 The Committee shall review the Group's arrangements for its employees to raise concerns about possible wrongdoing in financial reporting or other matters and the procedures for handling such allegations. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- 11.5 The Committee shall oversee the establishment and maintenance, and review the operation of good financial and audit practices throughout the Group and investigate any activities which are within its terms of reference and act as a court of the last resort.
- 11.6 The Committee should, at least once a year, review its own performance, constitution and these Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 11.7 The Committee should consider such other matters as the Board may from time to time refer to it.

12 Authority

- 12.1 The Committee is authorised to:
 - 12.1.1 seek any information it requires from any employee of the Group in order to perform its duties and call any member of staff to be questioned at a meeting of the Committee as and when required, and all such employees will be directed to co-operate with any request made by the Committee;
- 12.2 In connection with its duties the Committee is authorised by the Board to:
 - (a) select, set the terms of reference and appoint remuneration consultants;
 - (b) seek legal or other professional advice;

- (c) commission any reports or surveys which it deems necessary to help fulfil its obligations;
- (d) secure the attendance of external advisers at its meetings;
- (e) obtain up-to-date reliable information about remuneration committees,
- (f) all at the Company's expense.

12.3 Although the Committee can seek the advice and assistance of any of the Group's executives, it needs to ensure that this role is clearly separated from their role within the business.

13 Procedure

Subject to the constitutional documents of the Company, the Committee shall determine its own procedures.

These terms of reference were reviewed by the Board of the Company on 16 June 2015.