



Sellafield Ltd

Sellafield **Ltd Manual**

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Corporate Governance Manual

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1 Introduction

The purpose of this manual is to provide guidance on how Sellafield Limited's (SL) corporate governance arrangements work in practice. It explains how:

- the various formal governance documents such as the Articles of Association and the Scheme of Delegations; and
- the various Board Committees of the Company

are each implemented in SL's corporate governance arrangements.

SL is a company licensed under the Nuclear Installations Act 1965 (as amended) and is the holder of the nuclear site licence for the Sellafield Site (i.e. the Site Licence Company (SLC)). It is the legal entity responsible for these sites, which are owned by the Nuclear Decommissioning Authority (NDA). As the SLC, SL is through its Board, directly accountable to the relevant Regulators for compliance with the conditions of the nuclear site licence, environmental permits for Radioactive Waste Management and with all other applicable Law and Regulatory Requirements, including compliance with the Companies Act 2006.

SL, being a subsidiary of NDA (as Shareholder), is responsible for ensuring that the activities on its Sites are carried out:

- to the satisfaction of the Shareholder; and
- in the long term interests of SL, its Employees, the local community and business partners,

and for doing so safely, securely, reliably and predictably with due regard to the environment.

Capitalised terms in this Corporate Governance Manual and the Corporate Governance Documents have the meanings given to them in the Glossary of Key Terms.

2 Corporate Governance

2.1 What is Corporate Governance?

SL aligns its Corporate Governance process to the UK Corporate Governance Code (the Code) to the extent that it is considered by the Board to be applicable to SL. The Code describes Corporate Governance as follows:

“Corporate Governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general meeting.”

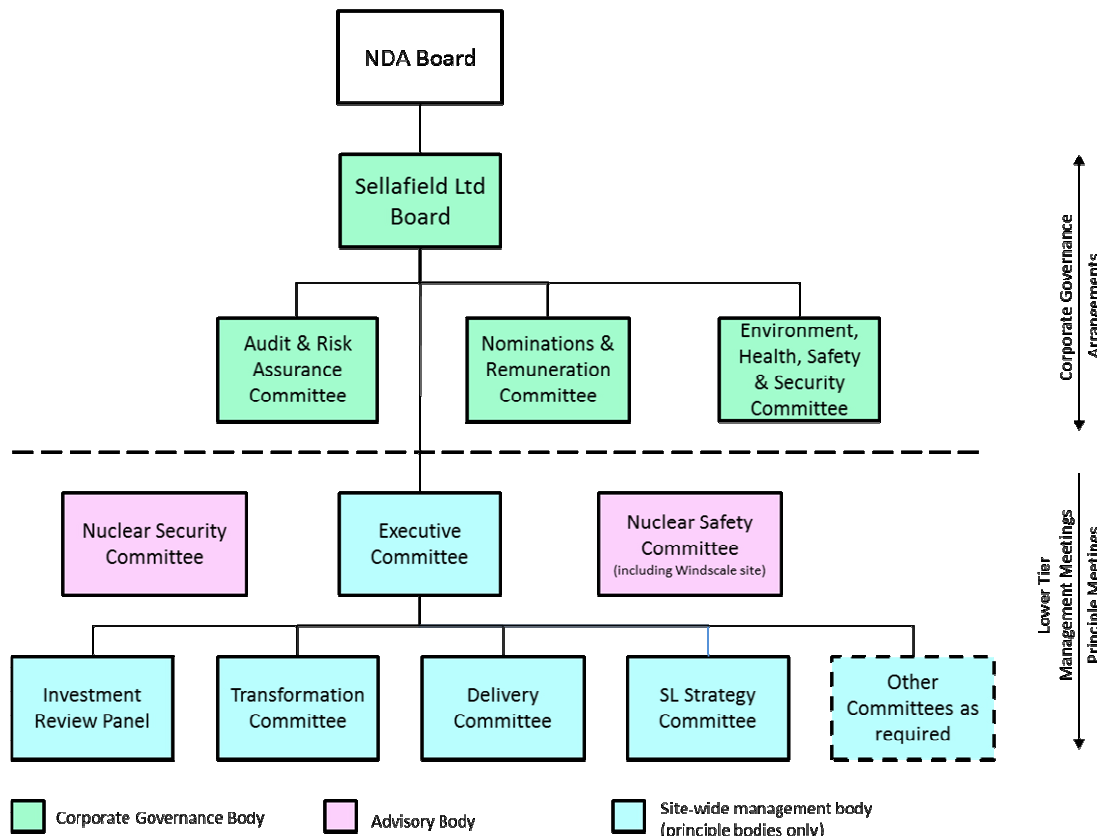
Corporate Governance should not be confused with accountability for day-to-day management of the business which is held by the Chief Executive Officer (CEO) supported by the Executive Team.

2.2 Corporate Governance structure

The Corporate Governance structure for SL is shown below. The structure should not be confused with the executive management structure for SL, nor does it reflect the delegated

authority of individual role holders or the way in which they choose to exercise their delegations. The Management Committees are not decision making bodies, they are the committees called by the accountable Executive or senior manager to support them in the delivery of their personal accountability or in the duty to advise and inform the Governance Committees.

Corporate Governance Framework



The committees identified on the above structure (with the exception of the Board) have implemented terms of reference which set out the scope of their role.

As shown above, the structure comprises three Board sub-committees, each of which is central to assisting the Board in maintaining good governance and assurance/oversight. Although other committees will support the work of these committees, final accountability and responsibility for the operation and management of SL rests directly with the Board. Decisions may be taken by these committees in line with their delegated authority as set out in the terms of reference (otherwise it is their responsibility to make recommendations to the Board).

The Board of Directors of SL: the Board has the sole decision-making authority, except where the Board delegates its authority to the CEO or to Board Committees, in each case in accordance with the terms of the Corporate Governance Documents and, where appropriate, the Services Agreement. In such instances the Board remains accountable to the Shareholder for those decisions and as such requires oversight and assurance of the systems put in place to deliver day-to-day management of the organisation.

The Audit and Risk Assurance Committee: This committee is part of the overall assurance framework for SL but is managed independently from SL’s assurance functions. It maintains oversight of SL’s formal and transparent arrangements for corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the External Auditors. It has no delegated decision-making powers but instead makes recommendations to the Board in relation to finance and audit matters including risk management, information risk management, control and governance.

The **Environment, Health, Safety and Security Committee**: This committee exists to provide assurance to the Board in respect of the adequacy, effectiveness and outcomes of the application of SL's policies, processes, procedures and practices with respect to the environment, health, safety and security (EHS&S) of the workforce and public, including compliance with all statutory and regulatory requirements. This will include the adequacy and effectiveness of the internal regulator and the adequacy of management responses to issues identified by internal or external audit, assurance or regulator activities.

The **Nominations and Remuneration Committee**: This committee has delegated authority from the Board for recommending to the Board the membership of the Board (with the exclusion of the Company Chairman) and its Committees and for succession to those Committees. In addition, and subject to the Remuneration Framework, the Nominations and Remuneration Committee has delegated responsibility from the Board for setting the remuneration of all Executive Directors, including pension rights and any additional payments or bonuses. Amongst other matters, it will also formulate plans for succession for both Executive and Non-Executive Directors (in particular for the key roles of Company Chairman and Chief Executive Officer) and recommend to the Board for approval of the design of, and determine targets for, any performance-related pay schemes (e.g. TAS) operated by the Company and approve the total annual payments made under such schemes

Further description of how these Board sub-committees operate is given in Appendix 4.

Advisory Bodies:

The **Nuclear Safety Committee**: Whilst each Director and Executive Committee member has responsibility for nuclear safety, there is also a Nuclear Safety Committee constituted in accordance with the nuclear site licence requirements. The committee includes members external to SL. It reports directly to the CEO and through him provides advice to the Licensee ensuring that matters of nuclear safety are given the highest visibility across the business. Any advice given by the committee but not accepted by the CEO must be reported to ONR under Nuclear Site Licence Condition 13.

The **Nuclear Security Committee**: Whilst each Director and Executive Committee member has responsibility for nuclear security, there is also a Nuclear Security Committee. The committee includes members external to SL. It reports directly to the CEO and through him provides advice to the Licensee ensuring that matters of nuclear security are given the highest visibility across the business. Its business is separate and distinct from the tactical delivery of security matters in line with security National Objectives, Requirements and Model Standards (NORMS).

Supporting management committees:

The **Executive Committee**: the CEO is accountable to the Board for the aspects of operating the Sites which SL controls. The CEO delegates certain of these controls and responsibilities to the members of the Executive Committee. The CEO (as Director with delegated authority to manage the business) leads the Executive Committee (which is the principal management committee for SL). Through the accountability of its members, it oversees the implementation and delivery of short to medium-term strategic decisions for the business. The CEO provides assurance to the Board that the business is being managed in accordance with the Board's requirements and authorities. The Executive Committee provides a forum for Executives to give advice as a collective to the CEO in support of him delivering his accountabilities to SL and the Board. The Executive Committee chair and members can elect to seek advice from the Board on sensitive or contentious matters even where these may be within the Executive Committee's remit.

The **Investment Review Panel**: the chair of this panel exercises the delegated authority of the CEO to oversee the strategic and financial investment decisions of SL acting directly on behalf of the CEO and taking formal decisions regarding the placing of significant contracts,

including justification for sole source awards and high value agreements. Where a matter is outside of the authority delegated to the panel, the chair provides advice and/or recommendations to the CEO. Included in the inputs to this panel are improvement actions and recommendations arising from Independent Performance Assurance Group (IPAG) and the Enterprise Programme Office (EPO) reports and reviews to help it determine the robustness of proposal put before it. It reports on its business through the Executive Committee and upwards to the Board.

The **Transformation Committee**: the Chair of this committee has delegated authority to manage Transformation activities that are required and approved by the Executive Committee. The Chair shall be supported in this role by the Transformation Committee, which will oversee the development and definition of transformation priorities, and will recommend transformation activities and sequencing to the Corporate Executive Committee for approval. Where not delegated directly, approvals will be sought through the Executive committee including where necessary Shareholder approval. The committee will track, monitor and ensure delivery of overall transformation programme activities holding the relevant Executive team member to account for implementing approved improvement activity in the area for which they are accountable, and will support the implementation of selected transformation priorities with the business.

The **Delivery Committee** this committee advises the committee Chair who shall be accountable to the Board and Executive for the delivery of all aspects of the day to day operational activities of the business. This includes delivering operational performance objectives as set by the Shareholder, Board and Executive. This committee provides an opportunity for the Executive and, by invitation, Shareholder representatives to review the performance of the business, including identifying and managing key risks to delivery and opportunities for improvement.

It will enable a report to the Corporate Executive with relevant and timely recommendations to challenge, support and create meaningful debate on site performance, holding the responsible Executive Committee Member to account for performance in the area for which they are accountable. To deliver this the committee shall review the improvement actions and recommendations arising from IPAG and EPO reports and reviews. It also receives and reports and recommendations relating to safety, security and the environment. The work of the committee will include identifying and addressing root causes for underperformance and driving the implementation of improvement plans.

Through delegation to its members, the committee shall ensure delivery of the implementation of the Transformation Agenda as approved by the Corporate Executive.

The **SL Strategy Committee** chair provides advice to the CEO in making strategic decisions within the delegated authority. Its remit is to ensure the effective development and implementation of the Site Strategic Specification, both the delivery area ("technical") strategies and the enabling function ("business") strategies. It acts as the key conduit for strategic information between the NDA and SL and between the SL strategic centre and the Divisions and Programme Areas/Functions.

All other committees, whether formally appointed or not, are advisory unless either the Board or the Executive Committee elects to further delegate any of its decision-making authority.

2.3 Role of the SL Board

The Board provides leadership to SL within a framework of prudent and effective controls which enable risk to be assessed and managed. It is accountable to the Shareholder and Regulators for compliance with the conditions of the nuclear site licence, environmental permits and other applicable Law and Regulatory Requirements. Its authority is derived

from the Articles of Association and the Scheme of Delegations and is subject to the conditions within the Remuneration Framework,

The Board will meet at least six times each calendar year.

The Companies Act 2006

The Companies Act 2006 sets out the duties of a Director as follows:

- a duty to act in accordance with the company's constitution and only exercise powers for the purposes for which they are conferred;
- a duty to act in the way the director considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard to various matters:
 - a) the likely consequences of the decision in the long term;
 - b) the interests of the company's employees;
 - c) the need to foster the company's business relationships with suppliers, customers and others;
 - d) the impact of the company's operations on the community and the environment;
 - e) the desirability of the company maintaining a reputation for high standards of business conduct; and
 - f) the need to act fairly as between members of the company;¹
- a duty to exercise independent judgment;
- a duty to exercise reasonable care, skill and diligence;
- a duty to avoid a situation in which the director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company;
- a duty to not accept a benefit from a third party conferred by reason of the director being a director, or his doing (or not doing) anything as director; and
- a duty for the director to declare if he is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the company, and the nature and extent of that interest, to the other directors.

The role of a Director is separate and distinct from the role of an Executive or Senior Manager, even if (as is the case of certain Directors who are also members of the Executive Committee) the roles are held by the same person.

Each Executive Director's role is to put aside the interests they may have in an executive capacity and act in a way which meets the duties of a director.

Non-Executive Directors are recognised as playing a key part in good governance in terms of independent oversight of Board decision making.

Non-Executive Directors' roles should be developed to ensure that they provide the appropriate level of oversight and challenge to the decisions of the Board and they should be provided with suitable and sufficient information and briefings to enable them to fulfil this

¹ This factor is not relevant as SL only has one shareholder and therefore there is no need to balance the interests of different shareholders.

role in full. It is good practice to review the overall effectiveness of the Board on an annual basis and to keep under consideration the role and appointment of Directors.

The key accountabilities and responsibilities of the Board, together with the matters reserved to the Shareholder itself are set out in Articles of Association and the Scheme of Delegations. Matters reserved to the Board are set out in Appendix 1. There are two parts to the Matters Reserved – those matters that the Board has chosen to reserve to itself, even though it is authorised to delegate them should it wish, and those where contractual obligations in the Services Agreement or non-delegatable matters in the NDA Scheme of Delegations require a matter to be dealt with by the Board itself.

Appointments and removals from the Board will be carried out in accordance with the Articles of Association and the Scheme of Delegations.

2.4 Roles of the Board Members

The Board membership is comprised of:

- Non-Executive Chairman, selected by NDA;
- Chief Executive Officer (Executive Director);
- Up to 3 other Executive Directors (including the Finance Director or equivalent);
- Up to 2 Shareholder Representative Directors; and
- Up to 4 independent Non-Executive Directors.

| Role | Purpose |
|--|--|
| Non-Executive Chairman | To promote the highest standards of ethics and corporate governance, assisted by the Company Secretary and the Board, in a way that is meaningful, relevant and understood throughout the business in order that we do the right thing the right way. To be accountable to the Shareholder for the effectiveness of the Board. |
| Chief Executive Officer (CEO) | To keep the Chairman regularly informed on all matters that may be of importance to the Board including progress against strategy, emerging risks and the performance of the Executive Team. To lead the Executive Team in effective delivery of the Operating Plan and Corporate Plan. |
| Non-Executive Directors (including the Shareholder Representative Directors) | To bring an independent and external dimension to the Board's activities and to play their part in relation to strategy, performance, risk and people. To support and constructively challenge the Executive Directors. |
| Executive Directors | To bring internal operational and business understanding to the Board's activities and to play their part in relation to strategy, performance, risk and people. To be accountable to the Chairman for their contribution to the Board and to the CEO for their respective business areas and delivery of the Board approved Operating Plan. |
| Company Secretary | To assist the Chairman in promoting the highest standards of ethics and governance. This includes ensuring good information flows within the Board and between the Executive Directors and Non-Executive Directors, as well as facilitating induction and professional development of Directors. To give independent |

| | |
|--|---|
| | impartial advice to the Board on issues of process and governance and on the legality of their actions. |
|--|---|

2.5 Role of the Executive Committee

The Executive Committee membership comprises a combination of the Executive Directors and other non-board executive leads. Each member is authorised by the CEO to undertake activities and manage their accountabilities within their respective areas of accountability. They are individually accountable for delivery of the Site Strategic Specification and the safe execution of the Operating Plan, including consideration of nuclear safety, security and the environment in all their activities, as well as achieving work and efficiency targets.

They may carry out these duties on their own authority or via delegation through the management chain. They may also seek advice from other individuals or management bodies to support them in decisions that they take under their own authority. The authority of the Executive Committee members is derived through delegation by the CEO either by appointment to the designated role or through the SL Delegation of Financial Authorities.

The Executive Committee is supported in its decision-making (and in providing recommendations to the Board) by the Directors and, where appropriate, by a small number of formally constituted sub-committees. The number and scope of these sub-committees is a matter for the Executive Committee to determine at any time depending on current and enduring business imperatives and proportionality and with due regard to the requirements of Corporate Governance, including the Corporate Governance Documents. These sub-committees could include any management committees necessary for the effective delivery of key business imperatives (such as site safety and major change projects).

Issues that do not require approval at Board or Shareholder level will usually be taken by Directors or other managers within the authority delegated to them by virtue of their appointment, or at a designated sub-committee such as the Executive Committee. In practice, the vast majority of day-to-day business will be handled in this way.

2.6 Formalities

The formalities supporting and recording decisions taken by SL, either by the Board or its committees vary depending upon the nature of the issue, the level at which the decision should be taken and the committee concerned.

Appendix 2 contains details on the formalities surrounding content and submission of papers, decision process and the recording of decisions. The company secretariat is accountable through the Company Secretary to the Board for upholding the quality standards in respect of these matters.

2.7 Audit and Assurance

An independent audit and assurance review will be performed on the basis identified by a schedule of audits provided by the Audit and Risk Assurance Committee.

Any modifications or improvements to the governance process of SL identified through either the self-assurance or the independent assurance/audit will firstly be addressed by the relevant SL Process Owner and any modifications/actions required will be taken in conjunction with the relevant Committee Chair(s).

2.8 Annual review of effectiveness

In line with Corporate Governance best practice, except where there is a clear overriding reason to do otherwise, the Board and the formal committees will review their performance and effectiveness on an annual basis and where appropriate develop an action plan for improvement. The process currently used to carry out the annual review of effectiveness is

described in Appendix 3. The process itself is also reviewed for effectiveness as part of the review.

2.9 Process Owner Responsibilities

The Process Owner for Corporate Governance is the General Counsel & Company Secretary. Process Owner responsibilities are as defined in the SL Management System.

3 References

| | |
|-------------|--|
| SLC 3.05.03 | SL Executive Committee ToR |
| SLC 2.05.01 | SL Nuclear Safety Committee ToR |
| SLC 4.04.01 | Sellafield Investment Review Panel for Sanction and Validation ToR |
| SLC 3.05.09 | SL Audit and Risk Assurance Committee ToR |
| SLC 3.05.11 | SL Nominations and Remuneration Committee ToR |
| SLC 2.01.01 | SL Nuclear Security Committee ToR |
| SLC 3.05.13 | SL Delivery Committee ToR |
| SLC 3.05.10 | SL Environment, Health, Safety and Security Committee ToR |
| SLC 3.05.14 | SL Transformation Committee ToR |
| SLMS 3.05 | Glossary of Key Terms |

4 Amendment Record

Amendments detailed below are those made from:

| | | |
|---------|----|---------|
| Issue 4 | To | Issue 5 |
|---------|----|---------|

| Date amendment(s) made | Section or paragraph amended | Details of amendment |
|------------------------|------------------------------|--|
| Oct 2013 | Section 1 | Inclusion of reference to SL Management Manual. |
| | Section 2 | Section 2.2 - Corporate Governance Framework diagram and committee descriptions changed to reflect new structure and accountabilities. Section 2.3 - Matters Reserved – deletion of Executive Committee membership item (basis: matter for the SL CEO, not the SL Board). Section 2.5 – Executive Committee role adjusted to align to accountabilities in the SL Board-approved Executive Committee Charter. Section 2.6 - Formalities - addition of principles regarding how to determine what matters are taken by what Committees. |
| | Section 3 | Removal of references to the BORC and JROC. |
| | Section 4 | Addition of References |
| | Appendix 1 | Replacement of Lower level Governance committees diagram with SL Executive Committee Structure as at 30 Sept 2013. |
| | Appendix 2 | Addition of 3-Tier Assurance Strategy for Corporate Governance |
| June 2016 | Whole of Issue 5 | Re-written to reflect the SMC Principles of Governance Document. |
| March 2017 | Section 2.3 | Updated to reflect the formation of the Delivery and Transformation Committees. |
| | Appendix 1 | Updated to reflect the role of the EHSS Committee regarding nuclear safety and nuclear security. Clarification of the Board's role in reviewing the delegation of financial powers to the CEO. Clarify the Board's role; in approving stakeholder engagement strategy and the Executive's role in executing that. |

Appendix 1 – Matters Reserved to the Board

| |
|--|
| <i>A) Matters required by the Board itself:</i> |
| <i>Policy:</i> The setting of SL Policies, approval of material changes to SL policies and oversight of the implementation of the policies and procedures. |
| <i>Risk Review:</i> To set the risk 'appetite' within SL and monitor its application and effectiveness through the risk management system, and to identify and review Board-level risk. |
| <i>Safety:</i> To consider recommendations from the Executive Committee and/or the EHSS Committee in connection with any matters relating to significant safety risks or enhancements at any of the Sites managed by SL. |
| <i>Security:</i> To consider recommendations from the Executive Committee and/or the EHSS Committee in connection with any matters relating to significant security risks or enhancements at any of the Sites managed by SL. |
| <i>Annual Report and Accounts:</i> To consider and approve the Annual Report and Accounts. |
| <i>Delegations:</i> To receive for approval recommendations from the Audit and Risk Assurance Committee in respect of the SL Delegation of Financial Authorities to the CEO. |
| <i>Stakeholder engagement:</i> To approve the Corporate Centre strategy for stakeholder engagement and its enactment by the Executive Committee. |
| <i>Compliance and ethics:</i> To consider Executive Committee and/or Audit and Risk Assurance Committee recommendations in connection with any matter the Board considers pertinent to its responsibilities, including reporting of Employee concerns. |
| The Board also requires to formally endorse for approval or agreement by NDA any of the Ordinary Shareholder Consent Matters defined in Section 24.1 of the Articles of Association. |
| |
| <i>B Matters required through the Scheme of Delegations to have Board approval (not included in the above):</i> |
| Approval of Baseline Plan |
| Approval of the SL Corporate Plan |
| Approval of the SL Operating Plan |

It is a matter for the Board to decide which matters are exclusively reserved to it and as such it will review and may amend the above list from time to time.

The SL Board (whilst retaining overall accountability) will delegate authority for other issues to the CEO and Executive Directors. Day to day management of the business will be overseen by the Executive Committee.

Appendix 2 – Formalities

- a) *Board and Executive Committee meetings:* In the case of a formal decision taken at a Board or Executive Committee meeting, the process will typically involve:
- i) A briefing paper. This paper addresses all the issues which the Directors are likely to take into account in making their decision, including the strategic rationale for the proposal, safety impact, the financial effects, the level of risk inherent in the proposal, a summary of legal and regulatory issues, issues relating to employees, reputational issues and other relevant considerations under the Companies Act 2006. The paper must clearly identify the nature of the decision or action required and the authorisation upon which it is requested e.g. a decision by the Executive Team to proceed with a proposed strategy that does not require Board approval. The detail depends on the type of proposal. The paper is to be circulated in advance of any meeting, unless the circumstances are exceptional, and is to be considered thoroughly by Directors. Arguably it forms the most important documented support to the decision process but its purpose should not be misunderstood; that is to assist Directors in reaching a decision through exercising their own judgement – it should not be construed as the decision or a record of the Directors' views. All papers must be formally submitted and will be logged and retained in accordance with the SL's Records Management Process.
 - ii) A presentation. This may be used to supplement the briefing paper. This is a significant opportunity for Senior Management to present their position in relation to major matters to support the Board or Executive Team in reaching its decision.
 - iii) A discussion amongst Board/Executive Team supported by professional advisors, leading to a decision.
 - iv) A minute. The minute should summarise the main points of any Board or committee meeting. It must at a minimum record any decision, but should also, where appropriate, briefly describe the process of discussion which led to that decision.
 - v) The Secretary or his nominee shall minute the proceedings and resolutions of all Board meetings, including the names of those present and in attendance. Draft minutes of Board Meetings shall be circulated promptly to all members of the Board for approval.
 - vi) Minutes of all meetings of the Board shall be signed by the person acting as Chairman of the proceedings to which the minutes relate, or of any subsequent proceedings in the course of which the minutes are approved as a correct record.

The process for full Board meetings is likely to be more formal, the process for Executive Committee meetings less so.

- b) *Decisions taken by individual Directors or formally constituted sub committees on matters specifically delegated to them:* Where decisions are taken by individual Directors or their committees, the process may, legitimately, involve much less formality, although in order to show that internal processes have been followed, there may be some form of briefing paper and/or record of the decision concerned.
- c) *Other decisions not taken under a) or b) above:* The way other decisions are supported or recorded varies as widely as the nature of the decisions concerned. When recommendations are taken by committees in circumstances other than at a formal Board Meeting, those recommendations should be recorded in accordance with the terms of reference of the particular committee. Where a decision is made, it must be recorded on whose authority that decision is made.

Creation and retention of records

The Company Secretary is responsible for the creation, retention and archive of appropriate records of business transacted during any Corporate Governance meeting following general site policy on retention and safe keeping of documents. This will include terms of reference, agenda, actions, minutes, and papers for each committee.

In order to maintain a suitable record of the meeting, the Company Secretary must produce appropriate formal minutes depending on the nature of the decision; and as instructed by the chair:

- Simplest – e-mail or note recording actions or decisions from a meeting.

- Fuller – record of the decision taken and a summary of the rationale behind that decision.
- Fullest – fully minuted note detailing the decision, recording the debate and any specific issues or caveats.

Access to Board minutes, papers, presentations and all other documents is strictly controlled by the Chair. Documents may only be released both internally and to external parties (other than the Shareholder) with the explicit written permission of the Chair, acting under advice from Legal Services.

The Articles of Association permit the Shareholder or its chosen representative or representatives to inspect any of SL's accounting or other records or documents provided that they are permitted by law or authorised by the Directors or an ordinary resolution of SL.

Appendix 3 – Annual review of effectiveness

In line with best practice governance, the Board and its formal sub-committees carry out an annual review of effectiveness. This is led by the SL Process Owner for Corporate Governance and is carried out in four phases:

The first phase is typically carried out about two months before a specific whole Board workshop to consider Board effectiveness, which is formally scheduled in the approved Board workplan. The activities comprise:

A self-evaluation of effectiveness by each of the committees based on a best-practice self-assessment questionnaire covering the key characteristics of good governance, namely:

- Insights and foresight
- Clarifying priorities and defining expectations
- Holding to account and seeking assurance
- Focus, agenda and forward plan
- Governance structure
- Reporting
- Dynamics
- Chair's leadership
- Performance evaluation

Clarification interviews may be held with individual members of the committees to discuss their responses and observations. Together with a review of findings/AFI's/Actions or observations from Internal Audit, ONR, EA, WANO Peer Reviews and Technical Assists, LRQA and NDA, these are used to inform the second phase.

The second phase, typically one month before the Board workshop, comprises a review of the above outputs to determine which matters are for individual committees to resolve and which may be indicative of wider governance themes for consideration at the Board workshop. These are categorised into: positive themes to maintain or enhance; emerging general governance themes from the Board's own self-assessment; emerging themes from across the remaining corporate governance committee's self-assessments and themes from other sources (where there is good commonality from more than one source).

These are used to prepare the agenda, determine the most effective process for the workshop itself and to define what advance material to provide to the Board members.

The third phase comprises the workshop itself. The structure typically includes:

Update from externals on the changing state of corporate governance, current topical issues and changes to legislation and good practice guidance.

Focus session on current topical issues and how they translate into SL-relevant activities.

Feedback from the Board and sub-committees self-assessments and the external inputs and emerging themes.

Review and prioritisation of themes and selection of one or two topics that require the full Board's direct engagement, delegation of themes to individuals where themes can be delegated.

Root-cause analysis and outline action plans and accountabilities for resolution of those themes selected for direct Board engagement.

The fourth and final phase comprises working-up of the action plans, production of a formal report for the Board at its next meeting together with ongoing monitoring by the Board of completion and effectiveness of the action plans.

Appendix 4

How the Board sub-committees operate

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (A&RAC) is a formally constituted sub-committee of the Sellafield Limited (SL) Board. Its purpose is to ensure effective oversight of SL statutory reporting, corporate governance, risk management process and internal control. The Committee also has oversight of the Internal Audit function of SL and the External Auditor on behalf of the Board.

The key responsibilities of the A&RAC are as follows:

- Financial Reporting: monitoring the integrity of the financial statements, the appropriateness and application of accounting policies and advising the Board on the approval of the annual report and accounts;
- Risk: reviewing the risk management process and its effectiveness, including on a periodic basis providing assurance over the appropriateness of mitigations for key business risks;
- Internal Audit: oversight of the Internal Audit function and its operating model, endorsement of the annual Internal Audit Plan and review of periodic reports from the function, including the annual Effectiveness of Internal Control report;
- External Audit: making recommendations to the Board on the appointment, removal, remuneration and terms of engagement of the External Auditors; approving the External Audit Plan and reviewing the findings of the audit.

Key information inflows to the A&RAC include: a Report from the Programme and Finance Director on financial performance, accounting issues and judgements and the effectiveness of key financial governance controls; a report from the Risk Management function with regard to the ongoing effectiveness of the Risk Management process; Internal Audit reports including progress against the Internal Audit Plan and findings from all audits, a Whistleblowing report and an update on any Fraud, Bribery or Corruption matters and the annual Effectiveness of Internal Control report; External Audit Planning and Results reports. In addition, the A&RAC may receive Management Control presentations from any area of the business requested in order for the Committee to challenge the design and / or operation of key controls in that area or assess the progress of required control improvements.

A summary report will be provided from each A&RAC meeting to the Board to provide assurance over, or escalate as necessary any issues with regard to, statutory reporting, corporate governance, the risk management process and internal control.

In order to ensure that the Committee is doing the right work the right way, it reviews its effectiveness at each meeting and takes part in the annual review of effectiveness of the entire Corporate Governance arrangements which includes rigorous benchmarking against best practice.

Environment, Health, Safety and Security Committee

The Environment, Health, Safety and Security Committee (EHSS) is a formally constituted sub-committee of the Sellafield Limited (SL) Board. Its purpose is to provide the Board with assurance in respect of policy implementation, statutory and regulatory requirements, internal controls (including environmental matters such as discharges and disposals, the Internal Regulator and EHSS Assurance) and risk mitigation.

The key responsibilities of the EHSS in providing assurance to the Board are as follows:

- the adequacy and effectiveness of the policies, processes and procedures within the Company and the principles and practices adopted in complying with all statutory and regulatory requirements
- the adequacy and effectiveness of internal control systems
- the adequacy and effectiveness of the internal regulator and EHSS assurance
- the adequacy of management responses to issues identified by internal or external audit, assurance or regulator activities
- EHSS risk mitigation in relation to the challenges posed by implementing the Sellafield Transformation

- the activities of the two advisory bodies, the Nuclear Safety Committee and the Nuclear Security Committee

The EHSS receives information inflows from the EHS&Q Director with regard to: policy, process and procedure matters; management responses to issues raised by internal or external regulators or auditors (such as ONR, Environment Agency, LRQA) and Boards of Inquiry; EHSS assurance reports and EHSS risk mitigations. It receives information inflows from the Head of Regulatory Assurance and Quality with regard to EHS&Q Internal Audit reports and the SL Internal Regulator report. It receives information inflows from subject matter experts or Process Owners on topical matters of concern as requested by the Board, the Executive, the EHSS Committee Chair or the EHS&Q Director. The Security and Resilience Director provides information inflows in relation to the Site Security Plan and improvements programme and emergency preparedness, post-Fukushima progress on resilience and other national and global events that impact on our security, emergency management and business resilience capabilities. It receives copies of the minutes and actions status from the Secretaries of the Nuclear Safety Committee and the Nuclear Security Committee and the EHS&Q Director and the Security and Resilience Director bring to this Committee's attention any particular matters of note.

On behalf of the Board, it receives topic-based annual reviews of effectiveness with regard to environment, conventional and radiological safety, nuclear safety, safeguards, security and resilience and the SL Management System (SLMS). These are scheduled in order to fit in with data availability and analysis and to smooth the workload for the Committee.

A summary report will be provided from each EHSS meeting to the Board to provide assurance over, or escalate as necessary any issues with regard to any of these matters. Should any matter require more urgent intervention, this would be managed directly by the EHS&Q Director under his direct accountabilities to the Executive, CEO and Board.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee (N&RC) is a formally constituted sub-committee of the Sellafield Limited (SL) Board. Its purpose is to make recommendations to the Board on matters of Board membership, leadership and skills, expertise and diversity. It has delegated responsibility from the Board to set the remuneration of all Board Executive Directors (subject to compliance with the NDA's Remuneration Framework for Sellafield). It makes recommendations to the Board in relation to the annual pay award and any performance-related pay schemes.

The key responsibilities of the N&RC in respect to nominations are as follows:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes
- give full consideration to succession planning for Directors in the course of its work, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future
- keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to deliver its objectives
- be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- reviewing those results of the Board performance evaluation process that relate to the composition of the Board.

and, with regards to remuneration:

- within the terms of the Remuneration Framework and in consultation with the Chairman and/or Chief Executive Officer, as appropriate, determine the total individual remuneration package of each Board Executive Director (n.b. a significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company and delivery of the strategic objectives)
- the on-going appropriateness and application of the Remuneration Framework.
- endorsing for Board approval of the annual pay award and setting of the negotiating mandate to the Executive Committee
- endorsing for Board approval of the design of, and determine targets for, any performance-related pay schemes (e.g. TAS) operated by the Company and approve the total annual payments made under such schemes
- endorsing for Board approval any major changes in employee benefits structures throughout the Company.

The N&RC receives information inflows from NDA as part of the Remuneration Framework; from the SL Secretariat in relation to Director's terms of office; from external advisors for facilitating recruitment, from SL regarding general pay and employment conditions across the company and proposals for performance related reward scheme(s). It will receive information about remuneration in other companies of comparable scale and complexity through a combination of appointing remuneration consultants (if necessary) and purchasing or commissioning reports and surveys.

The committee reports directly to the Board with regard to both nomination and remuneration matters.