

**FRES  
BUSINESS  
GOVERNANCE GUIDE**

**- Final approved on September 18<sup>th</sup> 2018 -**

*September 2018*

# **1 INTRODUCTION**

## **1.1 Purpose**

The main purpose of this guide is to lay down the principles of Governance to be adhered to within the Foundation Rural Energy Services (FRES). In addition it provides a common understanding of what FRES does, how it is organised and how it conducts its business. This guide builds on governance elements included in to be revised statutory articles of FRES and FRES companies (FRESco's). This guide expands on those elements to provide a comprehensive overview of the governance of FRES and its companies.

## **1.2 Scope**

This Guide covers the whole of the FRES Business including:

- The "Governance" process between FRES and its Operating Units (FRESco's). It also covers the management processes of the FRESco's.
- The management of FRESco's by FRES Directors and members of the FRES-NL team.
- The to be revised Governance process in relation to the FRES Board (previously Board and Raad van Toezicht).

## **1.3 Intended Readership**

The intended readership of this Guide is the Board, FRES-NL management and the management of FRESco's, with the aim to improve the understanding of the governance of FRES Business.

## **1.4 Maintenance**

At the end of the financial year the full Board will evaluate this guide in order to keep it up to date and to incorporate improvements if necessary. The discussion on this subject will take place in the Board meeting in which the annual accounts are approved. The evaluation will be prepared by the executive directors of FRES.

## 2 FRES GOVERNANCE

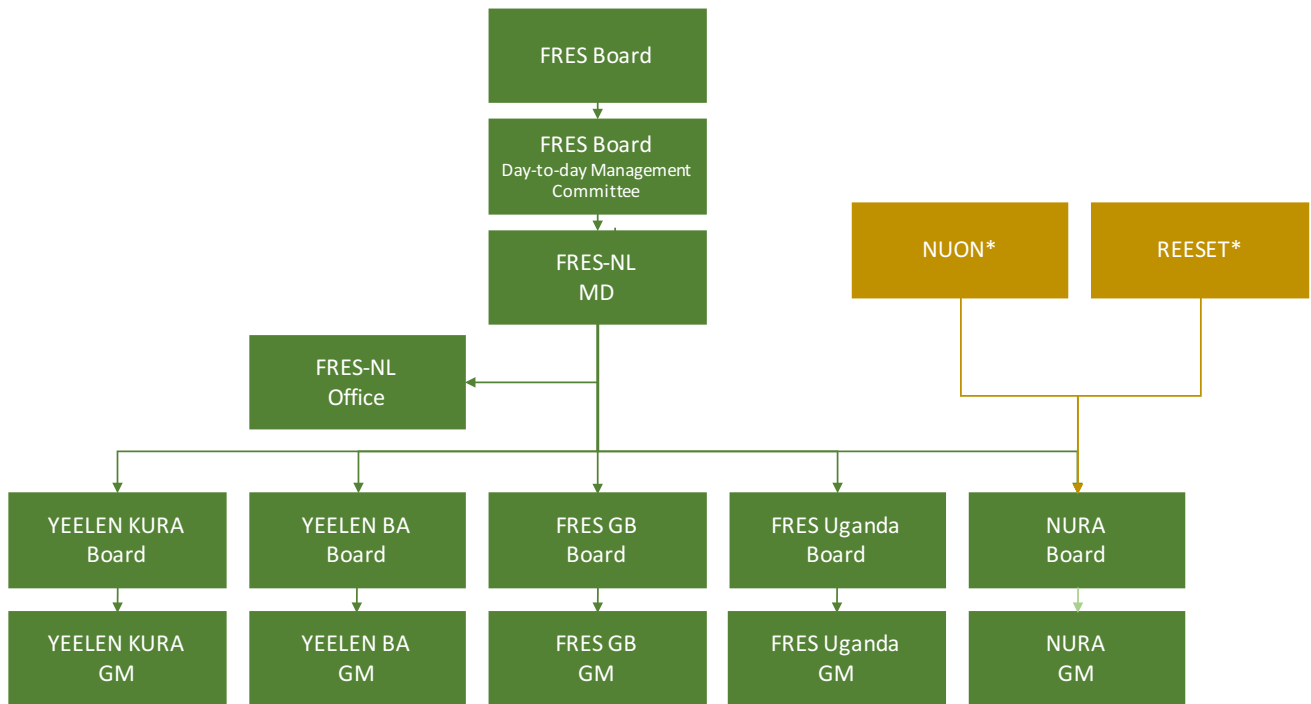
### Governance Definition

The framework of rules and practices by which the FRES Board ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (sponsors, financiers, customers, management, employees, government, and the community).

The following key principles underlie the process of Governance.

### 2.1 FRES

FRES either directly or indirectly (at this moment only the case with NURA) holds the interests in the FRESco's. The Board of FRES (Stichting Rural Energy Services) is the highest governance authority within the structure.



\* Operational oversight over NURA is executed by FRES NL management, irrespective of the shareholding by NUON and REESET. It is planned that NUON's shareholding will be transferred to FRES before the end of 2018.

## 2.2 FRES Board (previously RvT and Board)

### The FRES Board:

- Sets the strategic direction of FRES
- Approves the strategy proposed by FRES-NL management and supported by management of the FRESco's
- Approves the policies and planning proposed by FRES-NL Management\*
- Oversees the implementation and performance\*
- Ensures accountability\*
- As such, it approves the consolidated annual plan of activities, including the budget, the investment and financing plan.
- Approves and endorses the annual report
- Approves proposals by FRES-NL Management that fall outside its mandate\*
- Appoints members to the FRES Board on the nomination by the chair of the Board
- Supports the governance of FRES Businesses (FRESco's + FRES-NL), FRES's external representation and the development of FRES's human and other resources\*
- Appoints FRES Directors to the Boards of FRESco's and appraises the Board's performance\*
- Reviews and appraises FRES-NL's management annual performance\*
- Approves changes to the FRES Articles of Association and the Articles of Association of the FRESco's

Part of the Board's responsibilities (marked with \*) will be delegated to the "day-to-day management" committee of the board, consisting of the Chairperson and the Board members with a specific focus on Finance and on Operations.

## 2.3 FRES-NL Management

### The FRES-NL Management (the Managing Director):

- Develops and implements the FRES strategy and annual plan, as approved by the Board of FRES
- Oversees FRESco strategy implementation and day-to-day performance
- Ensures FRES's external representation
- Develops and appraises FRES's human resources
- Chairs the Boards of the FRESco's

## 2.4 FRESco Board of Directors

**FRESco Directors appointed by FRES** are, within the boundaries set by the FRES Board, statutory responsible to guide the FRESco's and:

- Sets the strategic direction of the FRESco
- Approves the strategy proposed by FRESco management
- Approves the policies and planning proposed by FRESco Management, under guidance from the FRES Board
- Oversees the implementation and performance
- Ensures accountability
- As such, it approves the annual plan of activities, including the budget, the investment and financing plan
- Approves and endorses the annual report
- Approves proposals by FRESco management that fall outside its mandate
- Appoints members to the FRESco Board on the nomination by FRES-NL
- Appoints and appraises the performance of the FRESco General Manager
- Proposes changes to the FRES Articles of Association, to be approved by the FRES Board
- Arranges for specific authorisations for investments, divestments, major activities, in line with the delegation of authority as per attachment 2.
- Protects the FRES Brand.
- Ensures that the internal control framework is in place to manage risks and opportunities and to demonstrate compliance
- Oversees implementation of and compliance with the Code of Conduct.

The FRESco Board consists of the FRES-NL MD, Controller and FRESco Liaison and the GM of the FRESco. For NURA there is also representation from REESET. The FRES-NL MD is the Chair of the FRESco Board.

## 2.5 FRESco Management

**FRESco GM's appointed by the FRESco board** under guidance from the FRES Board are, within the boundaries set by the FRESco Board, responsible to:

- Develops and implements the FRESco strategy and annual plan
- Ensures FRESco external representation
- Develops and appraises FRESco human resources
- Implementation of and adherence to the Code of Conduct.

## 2.6 Definitions and appointed staff

Please see attachment 3 for the definitions of the FRES Board, FRES NL MD and FRESco Boards, and their appointed staff.

### 3 FRES Organisation

This section describes the FRES Business organisation.

#### 3.1 FRES Board

The FRES Board is responsible for the Governance of the FRES Business. The FRES Board delegates responsibility to the the Board “day-to-day management” committee, the MD of FRES-NL and Board of Directors of the FRESco’s (in their statutory role), in line with the Roles and Responsibilities described in Attachment 1.

#### 3.2 FRESco Definition

A FRES Company (FRESco) is a company or unit set up to operate as one single economic unit and in which FRES has control as defined in applicable law and accounting standards. The GM of the FRESco is accountable for, and has authority over the totality of its businesses within the parameters set by the FRESco Board, under guidance from the FRES Board

The **FRES-NL MD, Controller and Liaison meet at least monthly (by phone) with the FRESco GM**, and

- Understand and verify the FRESco’s performance, controls and adherence to strategy
- Provide direction and leadership to the FRESco business.
- Ensure compliance to FRES policies and principles and the code of conduct
- Ensure and enhance business improvement in all areas of FRES activities
- Provide assurance to the risk management policy
- Provide advice on operating expenditure, investments, divestments and other portfolio related proposals, as per the delegations specified in Attachment 2
- Identify and manage issues to protect the FRES Brand.
- Provide stewardship for staff senior progression, rotation and succession

#### 3.3 FRES Companies

In accordance with applicable (local) law and FRES Policy, FRESco’s are managed by their Boards and the General Manager (GM), who have authority to manage their companies within the governance framework described in chapter 2.

#### 3.4 FRES Business Processes and Key Activities

There are four processes that cover the FRES Business; the process descriptions and the assigned process owners are as follows:

PROCESS	PROCESS DESCRIPTION	PROCESS OWNER
<b>Direct FRES Business</b>	Defines the activities to: develop FRES Business objectives and strategies, dashboard and plan; develop the FRES risk profile; create, maintain a FRES portfolio of opportunities; appraise and review the strategy and performance against dashboard; manage issues to protect the FRES brand; provide assurance of the control framework.	<b>FRES-NL MD</b>

<b>Develop New Business</b>	Defines the activities deployed to generate new FRES customers, from lead identification and maturation, through to fund raising tendering and deal closure with sponsors; could be all the way through to set up of a new FRESco.	<b>FRES-NL MD</b>
<b>Provide FRESco Governance</b>	Defines the activities deployed on behalf of and approved by the shareholders, with the purpose of assisting, influencing and steering FRESco's to successfully manage their business and to optimise their performance.	<b>FRES appointed FRESco Directors</b>
<b>Manage FRESco Business</b>	Defines activities to manage the FRESco business, including to <ul style="list-style-type: none"> <li>• Set direction; define mission, vision, objectives, strategy, policies, risks and control framework, after FRESco Board approval.</li> <li>• Build the business plan, dashboard and budgets.</li> <li>• Execute the plan.</li> <li>• Monitor performance and report results.</li> <li>• Self-assess the performance, strategy and controls, define improvements.</li> <li>• Identify and manage issues to protect the FRES brand.</li> <li>• Provide assurance of the control framework.</li> </ul>	<b>FRESco GM</b>

These four business processes result in the following key activities which run across the FRES organisation:

- Define direction
- Plan Business
- Execute Activities
- Monitor and Report
- Appraise Strategy, Performance and Controls

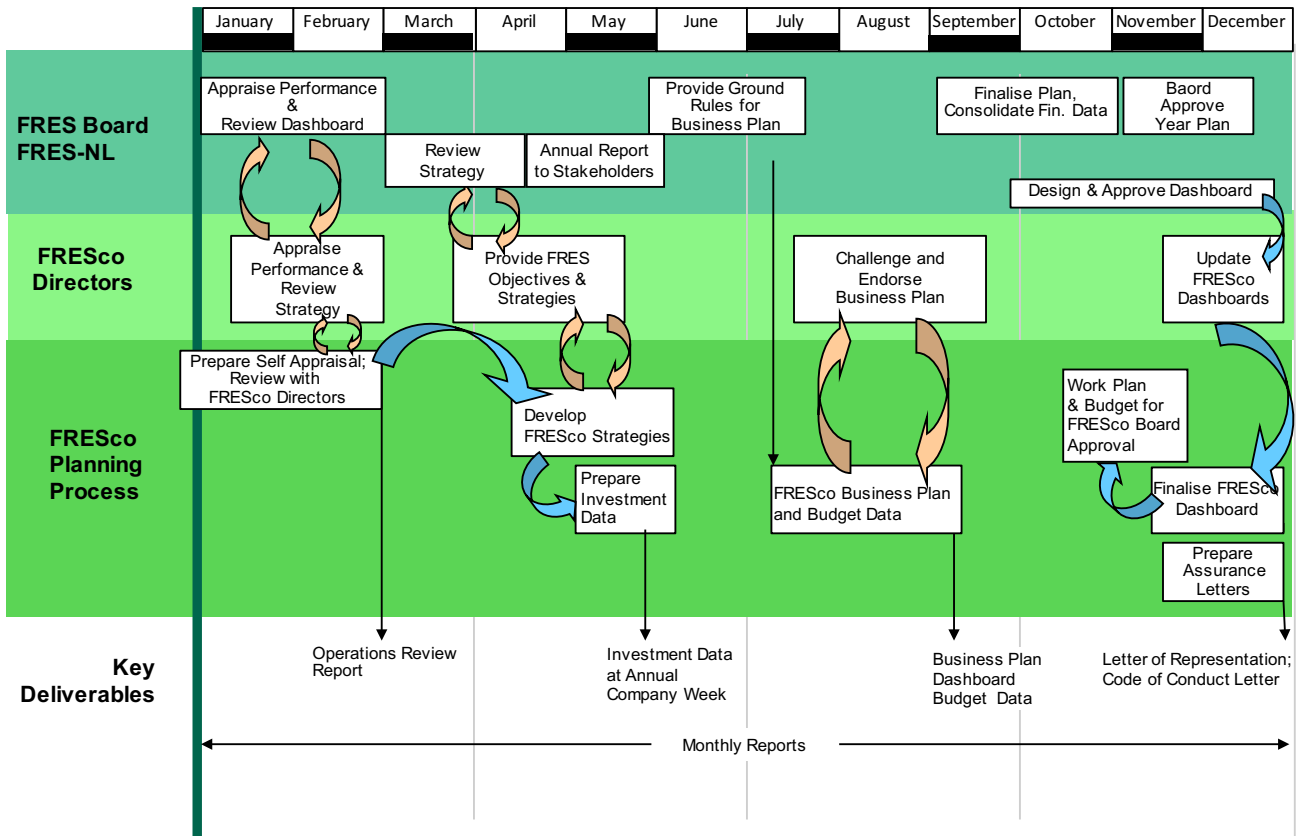
Each of these activities requires input and support of all parties involved in the governance of FRES. The complete set of responsibilities within FRES per key activity together with the expected key-deliverables is included in Attachment 1 "FRES Governance - Roles and Responsibilities".

### **3.5 Delegation of authority**

The Board of FRES is committed to ensuring effective authorization limits and their delegations within the organisation to ensure consistent good business practices and governance. Attachment 2 "Delegation of Authority & Authority Limits within FRES" describes details of the policy of delegation which applies to members of staff within FRES-NL and the members of the FRES Board.

## 4 FRES Business Planning Calendar

The FRES Business Planning calendar articulates the planning levels and elements around a set of planning dates as illustrated below:



### 4.1 FRES Planning Cycle

The planning cycle is described at FRESco level, with the required FRES approval cycles. In parallel to this process, FRES will use the same cycle and timing to provide a portfolio perspective over all companies under management and the potential addition of new companies and/or expansion of existing ones.

#### *Appraisal & Performance Review*

The planning cycle commences with the review of the previous year's performance in January/February. The review focuses on the FRES dashboard, and other appropriate areas of FRES performance. The FRESco dashboards are reviewed, learning documented and corrective action defined.

#### *Strategy Review*

In March, the FRES Board reviews the progress towards the current objectives and strategies using the Operations Review submissions supplied by FRESco's. Changes in the business environment and stakeholder positions are evaluated reviewed and key strategies updated where required. The Annual Report that is produced in – ultimately - June gives an account of the performance and strategy review.



### *Ground rules for Business Plan*

In May, the investment planning process commences, when FRESco's submit their possible investment proposals to FRES. The investment data has three components, planning, financial and human resource requirements data. The investment proposals are discussed with the FRESco during Annual Company Week. Following these discussions, FRES compiles the proposals into an overall programme. The FRES Board reviews this initial programme with respect to financial constraints, execution capability and overall risk appetite. The board's decisions form the ground rules for the Business Plan.

## **4.2 FRESco Planning Cycle**

The FRESco planning cycle starts in January with a Self-Assessment of the previous year's performance, achievement of current FRESco strategies and the effectiveness of the internal control framework.

The Self-Appraisal and Strategy Review report is submitted in February to the FRESco Directors. The self-assessment should include information that demonstrates FRESco performance track record, benchmarking performance for operating costs (and main constituent elements thereof).

The Business Plan is submitted to FRES in September, detailing the main activities, investments and resultant expected financial performance. The FRESco dashboard will be developed in discussion with the FRESco Directors to ensure consistency with the FRES dashboard.

Assurance Letters (Letter of Representation) are submitted to FRES at year end and key aspects will be reviewed for the finalization of the assessment cycle.

Work programmes and budgets will be approved by the specific FRESco Boards.

## **4.3 Review and Appraisal**

Review and appraisal cover both Self-Assessment and Independent Assessment.

### *Self-Assessment*

Self-Assessment covers three areas.

1. Review of results against the agreed plan, dashboard and strategy contract of the programme year.
2. Appraisal of strategies to meet objectives and goals.
3. Assurance of the internal control framework including an assessment of the risk profile and the results of audits
4. Adherence to the Code of Conduct.

### *Independent Assessment*

An independent assessment is carried out via the Governance process. It may be covered in separate reviews of performance, appraisal of strategy and internal control framework, based on the company self-assessment and assurance letters. There are three levels of independent assessment namely:

1. The FRES Board assesses the FRES Business.
2. FRESco Directors assess their FRESco's.
3. FRESco General Managers assess their units, departments.

#### 4.4 Assurance

Demonstration of the adequacy of the internal control framework involves an annual assessment by the FRESco Directors of the findings from audits and the Letters of Representation.

##### *Assurance Plan*

Each company is required to have an assurance plan covering internal and external audits, reviews and (self) assessments. The plan should be fit-for-purpose, flexible and cost effective and be able to test the integrity and effectiveness of the internal control framework.

##### *Assurance Letters*

A Letter of Representation (LoR) must be completed for each company. Following the assessment of the overall control framework by Audit, Directors and Managers must decide on qualifications to be made in the LoR to the FRES Board. Representations made in the LoR should be confirmed by all members of the management team prior to approval by the MD.

#### 4.5 FRES Internal Communication

Communication lines with respect to the key deliverables of the FRES governance process and the role of the main parties therein are as follows:

CATEGORY	FRESco	FRES-NL	FRES Board
<b>Planning</b>			
Business Plan	GM	FRESco Board	F-NL MD
Project/Investment Plans	GM	FRESco Board	F-NL MD
Feedback	GM	F-NL MD	FB decision
<b>Progress</b>			
Monthly Report	GM	F-NL action	FB info/comment
Project Reports	GM	F-NL action	FB info/comment
Monthly Board mtg (telecom)	GM	F-NL action	FB info/comment
Shareholders meeting	Chairman FRESco Board / GM		FB approval
<b>Results</b>			
Annual Report	GM	F-NL action	FB decision
Annual Account	GM	F-NL action	FB decision
Performance Review	Chairman FRESco Board		FB info/comment
Feedback	GM	F-NL action	FB info/comment
<b>Other</b>			
AD-hoc information exchange	F-NL action		FB info/comment
Visit reports, Reviews, Evaluations etc.	F-NL action		FB info/comment

	FRES Board (* D2D Cttee)	FRES-NL Managing Director	FRES Appointed FRESco Directors	FRESco General Manager
<b>Define Direction</b>	Approve overall FRES objectives and strategies Approve overall FRES policies and standards Approve the FRESco objectives and strategies* Approve FRESco policies and standards*	Develop overall FRES objectives and strategies Develop overall FRES policies and standard Endorse FRESco objectives and strategies Identify risks and establish key policy advisors Endorse FRESco policies and standards Ensure dissemination of the FRES, Policies and Standards	Develop FRESco/country strategies in line with FRES strategies Provide FRESco strategic direction based on the overall FRES objectives and strategies Represent FRES on FRESco Boards, committees and other shareholder meetings Disseminate FRES Business Policies and Standards applicable to individual FRESco's	Define company direction including vision, mission, objectives, and strategies Adopt FRES mandatory policies, standards and Code of Conduct Represent the FRESco and subsidiaries at shareholder meetings.
<b>Plan Business</b>	Approve the FRES business plan Approve FRESco business plans* Approve FRES capital expenditure and financing plans	Develop the overall FRES business plan Endorse FRESco business planning preparation guidelines & assumptions Develop the FRES planning dashboard. Develop FRES capital expenditure and financing plans.	Ensure FRESco strategies are aligned with, and that the FRESco's interest is represented in, the overall FRES strategies and business plan Set the FRESco dashboards Challenge and support individual FRESco capital expenditure and financing plans Support FRESco loan re-payments and dividend plans Challenge & support FRESco strategies, business plans and targets	Develop plans, performance targets and dashboards for Shareholder approval Approve the FRESco Audit Plan Secure resources to achieve these plans Develop capital expenditure and financing plans for Shareholder approval
<b>Execute Activities</b>	Approve annual budget Approve and support investment proposals* Approve capital allocation of projects* Approve overall lending and dividend policy Approve the set up of new FRESco's Approve FRESco board memberships*	Review FRESco investment proposals Propose capital allocation of projects Propose overall loan and dividend policy Support the FRESco Boards to meet agreed targets Propose representation on FRESco's Boards and in committees, as required Establish and set up new FRESco's	Govern (control and guide) FRESco's. Propose changes to governance structure to the FRES board, as required Screen, and advise up to the FRES Board as necessary, on support for commitment approvals Challenge and support the FRESco portfolio of business and opportunities, including acquisitions and divestments. Encourage FRESco's to identify and develop new opportunities within the agreed boundaries Participate in the overall portfolio management	Delegate responsibility and ownership for assets and processes Delegate financial authority after Board approval Prepare commitment proposals for Shareholder approval Implement agreed plans Manage the company portfolio Develop new business opportunities within the FRESco boundaries agreed with the FRES-NL. Alert FRES-NL of opportunities outside agreed FRESco boundary Develop and maintain a business control framework
<b>Monitor and Report</b>	Receive, review FRES results against plan* Monitor the FRES financial position* Approve risk mitigation actions, where needed*	Monitor performance of FRES against dashboard and identify and recommend corrective action as necessary Monitor the FRES' financial position specifically with respect to cash for pre-financing investment activities Monitor the management of risks and advise the board accordingly Monitor FRESco performance	Monitor performance of FRESco's against dashboard Identify areas for corrective action and bring to the attention of the GM Report progress and performance to FRES-NL Monitor and report on the management of specific risks in the FRESco/country	Report management information as required by Shareholders Monitor and report deviations to strategies, plan, policies and standards
<b>Appraise Strategy, Performance, and Controls</b>	Approve and Endorse the FRES Annual Accounts and Report Identify action areas for performance, strategy and control improvement* Approve selection of auditor for FRES Approve selection of auditors for FRESco's*	Carry out an appraisal of the FRES Business performance and strategy Prepare the FRES Annual Accounts and Report Identify and agree on areas for performance, strategy and control improvement Assess adequacy of the FRES business control framework and update risk profile	Appraise FRESco business performance, strategies and business control framework Approve and Endorse the FRESco Annual Accounts and Report Seek assurance on FRESco business control framework. Identify and action areas for performance, strategy and control improvement. Ensure FRESco's submit assurance letters as required e.g. LoR, Code of Conduct Select and propose Auditor	Lead a self-assessment of FRESco performance and strategy against the scorecard Assure the soundness of the business control framework Identify and action areas for improvement Prepare FRESco Annual Accounts and Report Submit assurance letters, as required e.g. LoR and Code of Conduct Letter.
<b>Key Deliverables</b>	Approval of the FRES Business Plan and budget Approval of investment, commitment proposals outside the mandate of the FRESco board* Adoption of the Annual Account FRES Adoption of the Annual Accounts FRESco's*	FRES Strategy Paper FRES Risk & Opportunities Register FRES Business Plan FRES Annual Account FRES Dashboard FRES Monthly FRES Annual Self-Appraisal FRES Investment Proposals FRES Senior Executive Progression and Succession Plan FRES Audit Plan and Report(s) FRES LoR, Code of Conduct Letter	FRESco Strategy Paper FRESco Risk & Opportunities Register FRESco Business Plan FRESco Annual Account FRESco Dashboard FRESco Monthly Reporting FRESco Annual Self-Appraisal FRESco Investment Proposals FRESco Senior Executive Progression and Succession Plan FRESco Audit Plan and Report(s) FRESco LoR, Code of Conduct Letter Resolutions from shareholders' meetings	Payment rate Operating Excellence Customer growth and retention Financial Sustainability Completed projects, activities Motivated staff

## DELEGATION OF AUTHORITY & AUTHORITY LIMITS WITHIN FRES

### 1. Policy

The principle objectives of this policy are to establish the authorities reserved for the members of the FRES Board (as a whole and the day-2-day committee and the FRES-NL MD. The authority limits should be appropriate to empower management to be able to act effectively and make key decisions in relation to the activities carried out by FRES-NL. All staff members are expected to understand their authorization limits, as well as those of their direct reports and to exercise a duty of care with respect to decisions made and commitments entered into on behalf of FRES.

### 2. Process

The tables below, which may be modified from time to time to fulfil organizational demands, defines authorities reserved for the Board and those designated to specified positions of responsibility within FRES and establishes the types and maximum amount of obligations that may be approved by individuals.

<b>Matters Requiring full Board Approval, Authority and Notification</b>	
Strategic Planning	Approval of long term objectives and strategies including strategic plan
	Approval of annual operating budget and material changes to it, performance to plan
	Notification and approval of any material change to the business — expansion or contraction
Corporate	Approval of changes to the corporate structure, including articles of association
	Composition and powers of the Board, appointment of the MD
	Appointment of auditors at FRES and FREcco level
	Notification of changes in senior positions within the Institute
	Approval of the Annual Accounts
Financial	Approval of borrowings
	Capital expenditures — annual capex plan and performance to budget
	One-off expenditures > EUR 50,000
Other	Notification of any legal action instituted including updates and outcomes

Financial Delegations — Maximum Levels Only				
Item	Document	Board D2D Cttee	MD	Comments
<b>Capital</b>				
Project purchases in annual plan	Annual Capex Plan	€ 500 K	€ 50 K	Basically a “tender board” procedure. Annual plan, Business Plan requires Board approval – commitments need to be within plan
New projects not in plan	Memo	€ 250 K	€ 50 K	Full Board approval required > € 250 K
Write-off of assets	Forms	€ 100 K	n/a	
Disposal of assets	Forms	€ 100 K	n/a	
<b>Financial</b>				
Leases	Agreement	€ 500 K	n/a	
Loans — existing, renewals	Memo			Reviewed annually with Board
Loans — new	Agreement		n/a	Must be approved by full Board
Contracts — goods	Contract/ Memo	€ 100 K	€ 15 K	
Contracts — services	Contract/ Memo	€ 100 K	€ 15 K	
Agreements with Funding Agencies and Sponsors	Contract/ Memo	€ 1 million	€ 50 K	
Invoice approval for payment	Invoice		€ 250 K	As per approved purchase orders / contract

Financial Delegations — Maximum Levels Only				
Item	Document	Board D2D Cttee	MD	Comments
<b>Financial</b>				
Expenses — general	Invoice	€ 100 K	€ 15 K	Per claim
Expense reimbursement	Expense claim	€ 100 K	€ 15 K	
Payment of salaries and expenses FRES-NL staff	Contract, expense claim		MD	As included in annual plan, budget
Transfers between FRES-NL accounts		€ 1 million per day	€ 100 K per day	It is not permitted to split amounts Accounts can only be opened or closed by Board D2D Cttee.
Transfers between FRES-NL and FRESco accounts		€ 150 K	€ 50 K	It is not permitted to split amounts
Transactions w.r.t. FRES Reserves Fund		€ 500 K		Reserves Fund policy reviewed annually by the Board

<b>Personnel Delegations — Maximum Levels Only</b>				
<b>Item</b>	<b>Document</b>	<b>Board D2D Cttee</b>	<b>MD</b>	<b>Comments</b>
<b>Own Staff</b>				
Expanding staff establishment	Memo		n/a	Board D2D Cttee approval required
Determine salary scale	Job description		n/a	Board D2D Cttee approval required
Sign contract	Contract		MD	
Authorise salary increase		D2D	n/a	
Authorise leave request			MD	
Assign volunteers, experts	Terms of reference, volunteer contract		MD	
<b>Third Party Staff</b>				
Authorise hire 3 <sup>rd</sup> party staff		€ 100 K	€ 15 K	
Sign contract	Contract		MD	