

## PORTSMOUTH WATER GOVERNANCE CODE

PRINCIPLE	OFWAT RATIONALE & EXPECTATIONS	CURRENT ADHERANCE	FUTURE PROPOSALS
<p>Reporting must meet or exceed the standards set out in the Disclosure and Transparency Rules</p>	<p>A key theme that overarches the principles is transparency. As monopoly providers of a public service, we expect companies to operate to the highest standards of governance and to set out clearly how they do this.</p> <p>Companies with strong governance supported by transparent and open reporting will help maintain the legitimacy of the sector. It is for Boards to consider how best to demonstrate how they meet the principles.</p> <p>We also expect reporting to reflect material issues. This would typically involve discussing areas such as group structure, company performance and the key risks to the business.</p> <p>We expect companies to ensure that the information is accessible to the audiences for this information. It will be companies to determine the best means of making this information transparent. Typically that could be through the use of media such as the annual, regulatory accounts and websites.</p> <p>We expect companies' Boards to make sure that the form and contents of the corporate governance statement meets the requirements of the disclosure and transparency rules for listed companies.</p>	<p>All key issues within the Group are discussed at the Portsmouth Water Board.</p> <p>Portsmouth Water Annual Report is prepared in accordance with this Governance Code and takes the lead from those set out in the UK Corporate Governance Code.</p> <p>The annual report and accounts and Interim Statement are published on our website.</p> <p>These statements include full details of remuneration of Directors.</p>	<p>The Company complies with this principle.</p>

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<p>The RegCo must act as if it is a separate public listed Company. An effective Board is fully focused on the RegCo's obligations</p>	<p>We expect the Board of the regulated Company (RegCo) to have full control of the business. It should have ownership of the strategy, and there should be a strong independent element to provide constructive challenge and help develop proposals. It should provide clear direction for management and create a framework that supports directors in meeting their statutory and regulatory duties.</p> <p>We expect the Board to be in a position to make well-informed and high-quality decisions based on a clear line of sight into the business, and to make decisions that are in the best interests of the RegCo.</p> <p>Given the long-term nature of the water sector, it is important that the RegCo Board has the powers necessary to make strategic and sustainable decisions in the interests of the RegCo for the long term.</p> <p>We expect a position where, by and large, a unitary Board operates and decisions are made at that level. Inclusion of executives and non-executives on the Board will mean that the Board takes full responsibility for the development of strategy; and takes accountability for the Board's decisions.</p> <p>It is important for companies in the water sector that the composition of the RegCo Board is sufficiently strong and is equipped to make strategic decisions about all aspects of the business. It should be clear to all members of the Board what decisions the RegCo Board is responsible for, and what (if any) exceptions there are to this. Exceptions, such as limited matters reserved for holding companies, should be clearly documented.</p>	<p>The Board of Portsmouth Water has full control of the Appointed Business.</p> <p>The Board have 50% independent non-executive directors with the Chairman having a casting vote thus giving the Independent non-executives a majority in voting matters. The Non-Executive Directors are the largest individual group on the Board. Furthermore, two executive directors who are also directors of the Parent Company, are not allowed to vote on dividends.</p> <p>There is one shareholder representative on the Board.</p> <p>The PW Board discuss the Group and Company strategy at least once every year.</p> <p>The Full Board regularly meet with senior representatives of stakeholder groups to ensure they are aware of all the issues that influence on their statutory and regulatory duties.</p> <p>The Board have an annual review of the "Matters reserved for the Board" schedule and have the ability to arrange meetings at short notice to discuss emergency issues.</p>	<p>The Company complies with this principle.</p>

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	<p>In practice, we recognise there may be decisions where, as an exception, the holding company (HoldCo) Board is involved. As a guide, companies should consider the number and nature of matters that are reserved for shareholders in a listed public limited company when deciding what matters are reserved to the HoldCo Board. These should be clearly articulated in the annual report. Useful guidance may be found in the matters reserved in a listed company for shareholder approval.</p> <p>It should be clear to stakeholders that the RegCo Board is leading the Company, both in terms of accountability and legitimacy.</p>		

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<p>There must be significant independent representation on the Board.</p> <p>Independent non-executive directors are essential to securing strong Board leadership and governance.</p> <p>In line with best practice, boards should have the appropriate balance of skills, experience, independence and knowledge of the company.</p>	<p>The water sector, unique in the way it operates, needs companies with Boards that are equipped to balance the conflicting needs of customers, the environment, the business and shareholders. The primary focus of the RegCo Board is the strategy to deliver the service and performance to meet these needs.</p> <p>The contribution of independent non-executive directors is invaluable to Boards as they provide challenge and a different perspective to Board members who are more operationally involved with the business, or Board members who represent investors.</p> <p>We expect the independent non-executive directors to be the largest single group on the Board, compared to (i) executive directors and (ii) non-executive directors that are not independent. A Board with a strong independent element is best placed to make decisions that are fully focused on the interests of the regulated company, independent of other objectives.</p> <p>We acknowledge that investors (who own the business) have a legitimate place on the Board; however, the number of investor representatives should be no greater than the number of independents excluding an independent chairman.</p> <p>In consultation with companies, most told us that it is best practice to limit executives on the Board to Chief Executive Officer and Financial Director. We are not setting standards in this regard; however, we expect that there will be fewer executives than independent non-executive directors on the Board.</p>	<p>The Independent non-executive Directors, although being on 50% in number, have an overall majority in voting at Board Meetings with the non-executive Chairman having a casting vote.</p> <p>The Non-Executives are also the largest single group on the Board.</p> <p>In addition, two of the Executive Directors do not discuss or vote on Dividend Proposals as they are directors of the Parent Company.</p> <p>There is one shareholder representative on the Board.</p> <p>All directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and their attendance at Board and Committee Meetings is listed in the Annual Report.</p> <p>The Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their duties and responsibilities and to assist with this, the Board have decided it is appropriate to have an Executive Operational Director.</p> <p>The Board also carry out a formal and rigorous annual evaluation of its own performance, and that of its committees and individual directors and this is reported in the Annual Report and Accounts.</p>	<p>The Board complies with the principle set out.</p>

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	<p>We expect all directors to attend and fully participate in each Board meeting. Regular use of alternatives for Board members has a negative impact on the continuity and efficiency of the Board. We consider that there is not a routine in place for alternates on companies' Boards.</p> <p>A Board that comprises high-calibre individuals with a diverse but relevant set of skills and experience is best able to balance the needs of customers, the environment, the business and shareholders. Periodically reviewing the composition of the Board, as well as evaluation of individual directors, will ensure that it remains effective. Unlike some other regulatory regimes, we are not considering a 'fit and proper' test for non-executive directors. We recognise that individual Board members will each possess different personal attributes that are demonstrated by effective independent non-executive directors that lead to ethical leadership.</p> <p>The Board should carry out a formal and rigorous evaluation of its own performance. It should act on any weaknesses it finds, and report on how the performance evaluation was conducted in the annual report.</p> <p>There should be a formal, rigorous and transparent procedure for the appointment of all new directors to the Board. In line with best practice, Boards should have the appropriate balance of skills, experience, independence and knowledge of the Company. Decisions around new appointments should be made in the context of the skills and experience of the whole Board, not solely on individual merits. There should be a nomination committee at RegCo level, made up of a majority of independent non-executive directors, which leads the process and makes recommendations to the Board.</p>	<p>The Nomination Committee, of which three of the four members are non-executive directors, carry out a formal, rigorous and transparent procedure for the appointment of new directors and this is reported in the Annual Report and Accounts.</p>	

PRINCIPLE	OFWAT RATIONALE & EXPECTATIONS	CURRENT ADHERANCE	FUTURE PROPOSALS
<p>The Chairman must be independent of management and investors</p>	<p>An independent Chair should be independent of investors and management. An independent Chair is best placed to generate effective debate and to provide constructive challenge. This will contribute to the effectiveness of the Board. We regard this as particularly important in a consortium where individual investors may be remote and where shareholder composition can change on an ongoing basis.</p> <p>An independent Chair allows the company to demonstrate that the Board perceptibly acts independently and exclusively in the interests of the RegCo.</p> <p>There should be an explicit division of responsibilities between running the Board and executive responsibility for running the business. Consequently, the Chair should not be the CEO or a former executive director of the Company or another group company as they would be unable to bring the same impartiality or lack of preconception as a truly independent Chair.</p> <p>The Chair should not be linked in any way to a shareholder, as this will affect the impartiality of the chair and therefore the effectiveness of the Board. This could also have a negative impact on the legitimacy of the company, and the sector as a whole.</p> <p>We recognise that in very limited circumstances, for example if the ultimate controller of the RegCo is a single entity an independent Chairman appointed with no link to that owner is unlikely to occur. In those circumstances we would expect any departure from the principles to be discussed with Ofwat. As a minimum, we would expect thee to be a senior independent non-executive director with whom all equivalent regulatory interactions would take place.</p>	<p>The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role, and they are independent of investors and management. There is a clear division of responsibilities at the level of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one person has the unfettered powers of decision.</p> <p>The Company has appointed a senior non-executive director.</p>	<p>The Board complies with the principle.</p>

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<p>Board Committees, including but not limited to audit and remuneration committees will operate at the RegCo level.</p> <p>There should be a majority of independent members on the audit and remuneration committees</p>	<p>All Board committees and accountabilities should operate at the RegCo level. Independent non-executive directors should be the majority group on the Committees. Ideally committees should be led by independent non-executive directors.</p> <p>We expect Board committees to operate at the RegCo level to ensure that the focus is fully aligned with the aims and needs of the RegCo, not the HoldCo.</p> <p>Final decisions on issues dealt with by each of the committees will be made by the Board and we expect committees to operate in a comparable way to those of listed company Boards.</p> <p>The independents on a committee should have the requisite financial knowledge and experience to provide appropriate challenge. This is also key to providing assurance and demonstrating the legitimacy of the committee.</p> <p>We expect details of the membership of committees, the number of times they met, and the attendance at each committee meeting to be reported transparently.</p>	<p>The Audit Remuneration and Nomination Committees are all operated through the Portsmouth Water Board and all either comprise of a majority, or 100% membership of Non-Executive Directors. Each committee is chaired by a Non-Executive and each committee has the requisite financial knowledge and/or appropriate experience.</p> <p>The Company's Annual Report and Accounts describes the work of each Committee, membership details and attendance at meetings.</p>	<p>The Board complies with the principle set out.</p>

<b>PRINCIPLE</b>	<b>OFWAT RATIONALE &amp; EXPECTATIONS</b>	<b>CURRENT ADHERANCE</b>	<b>FUTURE PROPOSALS</b>
The Group Structure must be explained in a way that is clear and simple to understand	The structure of the group within which the Company sits should be set out clearly and unambiguously. Customers can expect to know how the group which contains their company is structured, especially as the corporate structure for some groups is complex.	The Portsmouth Water Annual Report clearly states the ownership structure of the South Downs Group (which includes Portsmouth Water).	Explain Group Structure on Portsmouth Water website.