

## Southern Water Code

Southern Water is committed to maintaining high standards of leadership, transparency and governance.

### Introduction

As an appointed water and sewerage undertaker, the Company recognises its responsibilities to all of its stakeholders.

The Board has fully reflected the Ofwat Principles and drawn extensively on the appropriate principles of the UK Corporate Governance Code ('the UK Code') in the Southern Water Code ('the Code'). The objective of the Code is to help the Board to meet and to continue to evolve the high standards of corporate responsibility and behaviour by which it is governed.

The Board is implementing increased focus on risk assessment and management, having taken note of the new provisions of the UK Corporate Governance Code published in September 2014, and will reflect this in its Annual Report 2015–16.

The Board has committed to comply with the letter and the spirit of the principles and commitments of the Southern Water Code.

The Greensands Board has committed to assist the Board of Southern Water to comply with the Southern Water Code.

### Interpretation

In the Southern Water Code:

- 'Southern Water' and 'Company' mean Southern Water Services Limited (company number 2366670)
- 'Board' means the board of directors of Southern Water
- 'Greensands Board' means the board of directors of Greensands Holdings Limited, the ultimate parent company of Southern Water and of all other companies in the Greensands Group
- 'Annual Report' means the Annual Report of Southern Water published each year with its statutory and regulatory accounts (the Company's financial year is from April 1 to March 31)
- 'Ofwat Principles' means the Principles published by Ofwat in January 2014.

#### 1. A – Board leadership

- **A1 Principle** – Southern Water will act as if it is a separate public listed company.

A1.1 Commitment – This Code has been prepared, and will be regularly reviewed, to reflect the Ofwat Principles, those principles of the UK Code that are applicable to a privately-owned regulated company and best practice in these areas.

**A2 Principle** – The Board will be an effective board, focused on Southern Water’s business and obligations, specifically those to customers arising from its appointment as a regulated water and sewerage undertaker. It is collectively responsible for the long-term success of the Company, providing leadership within a framework of prudent and effective controls which enables risk to be assessed and managed and outcomes for customers and stakeholders to be delivered.

A2.1 Commitment – The Board and each director will act in the best interests of the Company, consistent with their statutory duties, relevant regulations and corporate governance principles.

A2.2 Commitment – The Board will take into consideration shareholders’ views and shareholders’ legitimate expectations for the Company. These may include appropriate matters reserved to shareholders under their shareholders agreement.

**A3 Principle** – The Board will determine the Company’s strategic aims and the nature and extent of the significant risks it is willing to take, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, review management performance, set the Company’s values and standards and ensure that its obligations to its stakeholders and others are understood and met (balancing the potentially conflicting needs of customers, the environment, the business and shareholders). The Board will provide clear direction for management.

A3.1 Commitment – The Board will maintain and include in the Annual Report a formal schedule of matters reserved for its decision. Where these include matters reserved to the Greensands Board or shareholders under their shareholders’ agreement, these will be identified in the schedule. Given the nature of such reserved matters, it is expected that the matters will only be decided by the Greensands Board or shareholders by exception and with knowledge of the Board decision. Should this occur, it will be disclosed in the Annual Report.

A3.2 Commitment – The Board may sit routinely with the Greensands Board in order to discuss operational and financial performance and to enable and enhance understanding of the decisions and issues for the Company and the Board, so as to engage with shareholders through their appointed representatives. Those present who are Greensands Board members will have no right of decision or vote over matters that are the responsibility of the Board.

A3.3 Commitment – The Company will maintain appropriate insurance cover for legal action against directors and senior management.

**A4 Principle** – The Chairman and Chief Executive Officer will not be the same individual.

A4.1 Commitment – The Chairman will not be the Chief Executive Officer nor a former executive director of the Company or another company in the Greensands Group.

A4.2 Commitment – The Company will maintain a clear division of responsibilities between those of the Chairman for the running of the Board and those of the Chief Executive Officer for the running of the business. The

division will be set out in writing and agreed by the Board. No one individual will have unfettered powers of decision.

## **2. B – Board composition**

- **B1 Principle** – The Chairman will be independent of management and individual shareholders.

B1.1 Commitment – The Chairman will be independent on appointment and remain independent of the Company's management and individual shareholders. The Chairman may also be chairman of the Greensands Board, since Southern Water is the only operating business in the Greensands Group.

**B2 Principle** – There will be significant independent representation on the Board

B2.1 Commitment – Independent Non-executive Directors, including the Chairman, will be the largest single group on the Board, compared to (i) Executive Directors and (ii) Non-executive Directors that are not independent.

B2.2 Commitment – Any Executive Directors will be limited to the Chief Executive Officer and the Chief Financial Officer.

B2.3 Commitment – The number of Shareholder Representative Non-executive Directors will be no greater than the number of Independent Non-executive Directors.

**B3 Principle** – Independent Non-executive Directors are essential to securing strong Board leadership and governance and are encouraged to provide challenge and different perspectives to Executive and Shareholder Representative Non-executive Directors.

B3.1 Commitment – The Board will appoint an Independent Non-executive Director as the Senior Independent Director, to provide a sounding board and be intermediary and available to shareholders if they have concerns which normal channels of contact have failed to resolve.

B3.2 Commitment – Should the Chairman be unavailable for any reason, the Senior Independent Director will chair meetings and be able to deputise for him/her with Ofwat as necessary.

B3.3 Commitment – A new Independent Non-executive Director will be appointed for a specified term not exceeding four years. This term may be extended for a further period not exceeding four years. The appointment will be terminable on three months' notice.

B3.4 Commitment – The Chairman will meet with the Independent Non-executive Directors without the Executive Directors present, at least annually and at other times on request.

**B4 Principle** – The Board and its standing committees will have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

B4.1 Commitment – The Board will comprise a sufficient number of well-informed and high calibre members, such that business requirements can be met and that changes to Board and standing committee compositions can be managed without undue disruption.

B4.2 Commitment – Other than in temporary circumstances, the Board will comprise no less than eight and not more than 12 members.

### 3. **C – Board operation**

- **C1 Principle** – The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role.

C1.1 Commitment – The Chairman will set the Board agenda for meetings, in consultation with the Chief Executive Officer, and ensure adequate time is available for discussion of agenda items.

C1.2 Commitment – The Chairman will promote a culture of openness and debate by facilitating effective contributions from the Non-executive Directors in particular and ensuring constructive relations between the Executive and Non-executive Directors.

C1.3 Commitment – The Board will meet sufficiently regularly to discharge its duties effectively, with meetings not more than two months apart. For those months when the Board does not meet, members will receive the regular operational and financial performance reports.

**C2 Principle** – The Board will be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

C2.1 Commitment – The Chairman will ensure that directors receive accurate, timely and clear information, with the assistance of the Chief Executive Officer, the Chief Financial Officer and the Company Secretary, and that there is effective communication with shareholders not directly represented on the Board.

C2.2 Commitment – Under the direction of the Chairman, the Company Secretary will ensure good information flows within the Board and its standing committees and between senior management and Non-executive Directors, facilitate induction for directors and assist with professional development as required.

C2.3 Commitment – The Company Secretary will advise the Board through the Chairman on all governance matters, ensure that Board procedures are complied with, and ensure that directors have access to independent professional advice, at the Company's expense, and company secretary services as appropriate.

C2.4 Commitment – Directors will ensure unresolved concerns about the running of the Company or a proposed action are recorded in Board minutes, and, on resignation, will provide a written statement of any such ongoing concerns to the Chairman for circulation to the Board.

C2.5 Commitment – The appointment and removal of the Company Secretary will be reserved for the Board's decision.

### 4. **D – Board effectiveness**

- **D1 Principle** – All directors will allocate sufficient time to the Company to discharge their responsibilities effectively.

D1.1 Commitment – Significant external business or similar commitments of the Chairman and Independent Non-executive Directors are to be disclosed before they are appointed and will be subject to ongoing obligations of disclosure to the Company Secretary on behalf of the Board.

D1.2 Commitment – The terms of appointment of Independent Non-executive Directors will contain an undertaking to meet the expected time commitment to the Company and will be published and made available.

D1.3 Commitment – The Chief Executive Officer and the Chief Financial Officer will be full-time appointments and neither will take on significant external business or similar commitments that could compromise their commitments to the Company.

D1.4 Commitment – Directors will attend and fully participate in each meeting of the Board and of each standing committee of which they are a member, so far as they reasonably can. If they are unable to attend, in person or by telephone or similar, they may appoint an alternate director to attend on their behalf, but not on a regular basis.

**D2 Principle** – All directors will receive induction on joining the Board and regularly update and refresh their skills and knowledge, as appropriate to the frequency of Board meetings and other engagement.

D2.1 Commitment – With the assistance of the Company Secretary, the Chairman will ensure full, formal and tailored induction for new directors, including an opportunity to meet major shareholders.

D2.2 Commitment – The Chairman will regularly review any training and development needs with each director and ensure that identified needs are met.

D2.3 Commitment – The fact of induction and training and development reviews having been undertaken will be included in the Annual Report.

**D3 Principle** – The Board will undertake a formal and rigorous annual evaluation of its own performance and that of its standing committees and individual directors. The evaluation will include the balance of skills, experience, independence and knowledge of the Company, diversity (including gender), how the members of the Board work together and other factors relevant to the effectiveness of the Board, as well as whether each director continues to contribute effectively and to demonstrate commitment to the role.

D3.1 Commitment – The Chairman will lead the evaluation and be responsible for acting on its results within an appropriate timeframe. The evaluation will be externally-facilitated at least every three years.

D3.2 Commitment – The Senior Independent Director will lead the performance evaluation of the Chairman, including the views of the Executive Directors.

D3.3 Commitment – The fact of the Board and Chairman evaluations having been undertaken and a statement as to their general findings and any action to be taken will be included in the Annual Report.

## **5. E – Board committees**

- **E1 Principle** – Audit and Risk Review, Nomination, Remuneration and Health and Safety will be standing committees of the Board.

E1.1 Commitment – The standing committees will be chaired by Independent Non-executive Directors. The Chairman may chair the Nomination Committee and the Health and Safety Committee.

E1.2 Commitment – The terms of reference and membership of the standing committees will be published and made available.

E1.3 Commitment – The work of the standing committees in discharging their responsibilities will be described in the Annual Report.

E1.4 Commitment – The standing committees will be provided with sufficient resources to comply with their terms of reference, which will be reported on at the annual meeting of each committee. The chairman of a standing committee will notify the Board if sufficient resources are not provided and the Board will authorise appropriate action.

### **Nomination Committee**

**E2 Principle** – There will be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

E2.1 Commitment – The Nomination Committee will lead the process of identifying and recommending for appointment a new Independent Non-executive Director to the Board.

E2.2 Commitment – The Nomination Committee will be chaired by an Independent Non-executive Director, which may be the Chairman except when the Committee is dealing with the appointment of a successor to the Board chairmanship.

E2.3 Commitment – There may be equal numbers of Independent Non-executive Directors and Shareholder Representative Non-executive Directors appointed to the Nomination Committee, in recognition of the interests of shareholders in the Company's compliance with Licence Condition P.

E2.4 Commitment – The terms of reference of the Nomination Committee will reflect the need for the Board to have the appropriate balance of skills, experience, independence and knowledge of the Company, and have due regard to the benefits of diversity.

E2.5 Commitment – A recommendation of the Nomination Committee may be agreed or not agreed by the Board. If it is agreed, the Board may seek confirmation from the Greensands Board or shareholders before making the appointment, in recognition of their interests in the Company's compliance with Licence Condition P. If such confirmation is sought and not received, this will be disclosed in the Annual Report.

### **Remuneration Committee**

**E3 Principle** – Levels of remuneration will be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully. A significant proportion of the Executive Directors' remuneration will be structured so as to link rewards to corporate and individual performance, having regard to the interests of all stakeholders.

E3.1 Commitment – Remuneration policy will have regard to the principles of Schedule A of the UK Code as appropriate and to the interests of all stakeholders.

E3.2 Commitment – Notice periods in directors' contracts will be no more than one year.

E3.3 Commitment – Remuneration for Independent Non-executive Directors will reflect time commitment and responsibilities.

**E4 Principle** – There will be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director will be involved in deciding his or her own remuneration.

E4.1 Commitment – The Remuneration Committee will lead the development of remuneration policy, consulting with the Chairman and Chief Executive Officer and making recommendations to the Board as appropriate.

E4.2 Commitment – The Remuneration Committee will comprise of at least three Non-executive Directors. There will be a majority of Independent Non-executive Directors.

E4.3 Commitment – The terms of reference of the Remuneration Committee will include recommending the remuneration for the Chairman and the Executive Directors, including pension rights, and recommending and monitoring remuneration levels and structure for senior management. The Board will determine the remuneration of Independent Non-executive Directors.

E4.4 Commitment – A recommendation of the Remuneration Committee may be agreed or not agreed by the Board. If it is agreed, the Board may seek confirmation from the Greensands Board or shareholders before implementing the recommendation, in recognition of their interest in the structure of remuneration and management incentives (including in particular, long-term incentive schemes). If such confirmation is sought and not received, this will be disclosed in the Annual Report.

E4.5 Commitment – If the Remuneration Committee appoints any consultants in respect of executive director remuneration, their identity will be disclosed in the Annual Report.

E4.6 Commitment – Compensation provisions for early termination of directors will have regard to avoiding rewarding poor performance.

### **Audit and Risk Review Committee**

**E5 Principle** – There will be formal and transparent arrangements for monitoring and reviewing the implementation of corporate reporting, risk assessment and management and internal control principles and systems, and for maintaining an appropriate relationship with the Company's auditors.

E5.1 Commitment – The Audit and Risk Review Committee will lead the monitoring and review of the implementation of corporate reporting, risk assessment and management and internal control principles.

E5.2 Commitment – The Audit and Risk Review Committee will comprise of at least three Non-executive Directors, at least one of whom will have recent and relevant financial experience. There will be a majority of Independent Non-executive Directors.

E5.3 Commitment – The terms of reference of the Audit and Risk Review Committee will include monitoring and reviewing the effectiveness of risk management and internal controls systems and audit activities, and reviewing and advising on the Annual Report and statutory and regulatory accounts.

E5.4 Commitment – The Audit and Risk Review Committee will have primary responsibility for reviewing and advising on the engagement, remuneration, effectiveness and independence of external auditors and the scope of their work. The external audit contract will be put to tender at least every 10 years.

### **Health and Safety Committee**

**E6 Principle** – The health and safety of the Company's customers and employees and others who may be affected by its operations and activities and those of its contractors are of paramount importance.

E6.1 Commitment – The Board itself will monitor the performance of the Company against drinking water quality and wastewater service standards.

E6.2 Commitment – The Health and Safety Committee will review and advise on the Company's health and safety policy, guidance, standards and culture, injury and accident performance, contractor management and performance and significant workplace issues.

E6.3 Commitment – The Health and Safety Committee will comprise at least four directors, at least one of whom will be an Independent Non-executive Director, who may be the Chairman, who will chair the Committee. The Chief Executive Officer, as the director designated by the Board to be responsible for health and safety, will be a member of the Committee.

## **6. F – Transparency of information and reporting**

- **F1 Principle** – The Board recognises the responsibilities of the Company for transparent reporting to inform its stakeholders, and will continue to review areas for enhancement.

F1.1 Commitment – The Company will maintain its web presence as its main publication channel to improve availability, accessibility and currency of appropriate information, whilst continuing to make such information available generally or on request in hard-copy formats.

F1.2 Commitment – Reporting will meet or exceed the standards of the Disclosure and Transparency Rules that can reasonably be applied to a privately-owned company.

**F2 Principle and Commitment** – The structure of the Greensands Group, which includes Southern Water, will be explained and disclosed in a way that is clear and simple to understand.

**F3 Principle** – The Board is responsible for ensuring that material financial, performance and risk reporting presents a fair, balanced and understandable assessment of the Company's position.

F3.1 Commitment – The Annual Report will contain at least all of the information that the Company is required or has committed to include under legal and regulatory obligations and under this Southern Water Code. In addition, it will identify where further information has been published.

For instance, this information includes:

- A statement of the Board's operation, including the formal schedule of matters reserved for the Board's decision and delegated matters, and any of these matters reserved to the Greensands Board or shareholders under their shareholders' agreement, including any decisions taken
- The business model and strategy statement
- Identification of the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Senior Independent Director, the other Independent Non-executive Directors, Shareholder Representative Non-executive Directors and members of the standing committees
- The Chairman's other commitments and any changes and impacts

- The number of Board and standing committee meetings and member attendances
- Details of the work and policies of the standing committees and their terms of reference
- The undertaking of the annual Board evaluation
- Responsibility explanation by directors and a statement that the reporting is fair, balanced and understandable
- A statement by the external auditor on responsibilities.