Chairman's Introduction

Wessex Water Services Limited ("Wessex Water") is committed to high standards of corporate governance. Under Condition F of its Instrument of Appointment as a water and sewerage undertaker (the "Licence"), Wessex Water is required to conduct its water and sewerage business as if it were its sole business and as if it were a public limited company. The Licence also requires Wessex Water to have particular regard to the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority (the "Code"). The Code is not a rigid set of rules and provides general principles of best practice. Whilst the Code is generally regarded as embodying best practice in UK corporate governance, its main focus is the relationship between a listed company and its shareholders. Wessex Water has a single shareholder and, accordingly, it is able to address certain issues more directly and completely than if it were a listed company.

Wessex Water’s focus is on complying with the principles and spirit of the Code in its particular context as a private limited company with a single shareholder. In practice, Wessex Water complies with the Code principles and provisions with only very limited exceptions. In those few areas where we have decided not to follow the precise requirements of the Code we explain why in our Annual Report, and set out how good governance is nevertheless achieved.

In January 2014, the Water Services Regulation Authority (OFWAT) published a final set of core principles (the “OFWAT Principles”) and invited water companies to commit to codes of practice setting good practice in corporate governance. This Code of Practice sets out our approach to governance. Wessex Water’s Board and shareholder fully support placing good governance at the heart of its business. I’m pleased to record that the governance arrangements Wessex Water currently operates generally meet or exceed the OFWAT Principles as demonstrated in this Code of Practice and in our latest Annual Report.

Good governance is at the heart of Wessex Water’s business and underpins the relationships it has with its customers, shareholder and other stakeholders. The Board of Wessex Water regards it as fundamental to its long-term commitment to provide excellent customer service and satisfaction. Governance arrangements are kept under constant review. We have made changes from April 2014 so that we continue to reflect best practice, bring our governance arrangements further in line with the OFWAT Principles and maintain our position as the leading water and sewerage company for customer service and satisfaction.

We believe that our governance arrangements will ensure that Wessex Water continues to operate effectively and efficiently to the benefit of our customers, shareholder, and other stakeholders with clear accountability for decision making.

Francis Yeoh
Chairman
General Principle

Wessex Water will adopt appropriate governance standards and practices taking into account, amongst other things, its corporate structure and any legal requirements (the “Principle”). The governance standards and practices set out in this Code of Practice are subject to the Principle, which may require Wessex Water to amend its governance practices or adopt new standards or practices from time to time.

Disclosure & Transparency of Reporting

We will report our financial affairs in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and the requirements of the Accounting Standards Board save where such requirements cannot sensibly be applied due to Wessex Water being a private company with a single shareholder. This includes reporting in our Annual Report about our governance arrangements including directors’ remuneration, group structure, company performance and the key risks to the business. In particular, the form and content of the governance statement in our Annual Report will continue to meet the requirements of the Disclosure and Transparency Rules.

We will report on Directors’ remuneration as if Wessex Water was publicly quoted save where impractical due to Wessex Water being a private company with a single shareholder.

We will continue to publish on our website our Annual Report, Regulatory Accounts submitted to OFWAT and interim statements.

Acting as if a Publicly Listed Company and Board focused on Wessex Water’s Obligations

In accordance with our Licence Condition F:

- We will act as if our appointed water and sewerage business is our sole business and we were a listed company. However, Wessex Water is not a listed company and there are limits to its acting as a public listed company. In particular, corporate governance in listed companies is very significantly focused on the interests of disparate shareholders and Wessex Water must take into account that it is a private limited company with a single shareholder.

- Our Board and Directors will act independently of our parent company and controlling shareholder and exclusively in the interests of Wessex Water.

- All Directors’ conflicts of interest will be disclosed and recorded.

- The Board, where a conflict of interest may arise between Wessex Water and any other Group company, will have regard exclusively to Wessex Water’s interests as a water and sewerage undertaker.

- Our Directors will not vote on any contract or arrangement in which they have interests by other directorships.

- We will operate a dividend policy approved by the Board that will not impair our ability to finance our water and sewerage business and that rewards efficiency and the management of economic risk.

- We will have regard in all matters of governance to the Code, the Listings Rules of the Financial Services Authority, the OFWAT Principles and the requirements of our Licence.
We will continue to operate a unitary Board with an appropriate balance of skills, experience, independence and knowledge that will take all strategic decisions of Wessex Water. There will be an appropriate balance of Executive Directors and Non-Executive Directors on the Board. No matters are specifically reserved to the shareholder and the Board leads Wessex Water.

It is expected that the Board will maintain a minimum of four Independent Non-Executive Directors to scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. The Independent Non-Executive Directors will also participate in the various Board Committees, assessing the integrity of financial information and whether financial controls and systems of risk management are robust and defensible, determining appropriate levels of remuneration for Executive Directors, assisting in appointing and, if necessary, removing Executive Directors, and assisting in succession planning.

Wessex Water will continue to ensure that Directors (and in particular the Independent Non-Executive Directors) have access to independent professional advice at Wessex Water’s expense where they judge it necessary to discharge their responsibilities as Directors. We will also ensure that the Board Committees are provided with sufficient resources to undertake their duties.

We will ensure that the Board annually reviews and approves Wessex Water’s Organisation and Control Arrangements (“O&CA”) which sets out the framework for control of Wessex Water’s affairs. The O&CA will set out requirements for the competency of members of the Board and its Committees, for effective management of our business and for the granting of delegated powers and authorisations. The principal duties of the Board, the matters reserved for its decision and the terms of reference of its Committees will continue to be fully documented (and copies made available on our website). Matters reserved to the Board will include strategy, charges, material changes to management and control structures, approval of Board appointments, approval of material contracts, risk management, health and safety policies, disposal of material assets, approval of the annual operating budgets, employee pension arrangements, significant changes in accounting policies and defence and settlement of material litigation. The Board will continue to retain responsibility for making all decisions on matters considered by its Committees.

We will annually conduct a review of the Board’s performance, that of its Committees and individual Directors and report on how the review was conducted and the outcome in our Annual Report. We will seek to act on any weaknesses highlighted by the review in an appropriate manner.

As part of its responsibility for the management of risk, the Board in accordance with our dividend policy, controls the extent of dividends paid and consequently the financial gearing of Wessex Water. As with all Board decision making, these criteria will continue to be determined with the active involvement of the Independent Non-Executive Directors.

We will through the O&CA set out specific rules for disclosing and recording conflicts of interest.

We will continue to ensure that all Directors have access to the Company Secretary and Wessex Water’s internal solicitors for legal and regulatory advice.

Any Director or the Company Secretary may request that an item is placed on a Board Agenda for consideration. Any Director with concerns about the running of Wessex Water or a proposed action that cannot be resolved, is encouraged to raise such concerns at a Board meeting and this will be recorded in the minutes of the meeting.

**Independent Non-Executive Directors**
Licence Condition P requires Wessex Water to maintain the presence on its Board of at least three Independent Non-Executive Directors. It is expected that the Board will maintain a minimum of four Independent Non-Executive Directors.

We will continue to ensure that our Independent Non-Executive Directors are appointed from a range of different backgrounds to bring external experience and insight to the Board and to provide independent thought and challenge to the Board’s decision making. We will ensure the Board is refreshed at appropriate intervals. All new Directors receive a full, formal and tailored induction on joining the Board and any required training is provided. We will continue to appoint Directors with a view to ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of Wessex Water.

We will ensure that one of the Independent Non-Executive Directors will be appointed as the senior Independent Non-Executive Director to provide a sounding board for the Chairman, to serve as an intermediary for the other Directors when necessary and act as independent link to OFWAT.

The Independent Non-Executive Directors will annually appraise the Chairman’s performance.

The Nominations Committee will lead a formal, rigorous and transparent process of appointing all new Directors. The Nominations Committee is made up of a majority of Independent Non-Executive Directors. Director appointments will continue to be made on merit against objective criteria and with due regard for the benefits of diversity on the Board including gender as well as the need to have the appropriate balance of skills, experience, independence and knowledge on the Board. We will use external recruitment agencies for all appointments of Independent Non-Executive Directors.

We will appoint new Independent Non-Executive Directors after consultation with OFWAT and with the agreement of the Wessex Water’s shareholder, for an initial three-year term (subject to statutory provisions relating to removal).

Any extension of a term beyond six years for an Independent Non-Executive Director will be subject to particularly rigorous review and take into account the need for progressive refreshing of the Board, balanced against the requirement for the appropriate skills, experience, independence and knowledge.

Our Board comprises four Independent Non-Executive Directors, four Executive Directors (a Managing Director, a Chief Operating Officer, a Group Chief Executive and a Finance Director), four shareholder appointed Non-Executive Directors and a shareholder appointed Non-Executive Chairman.

The OFWAT Principles are based on the Code, which applies to UK listed companies. The principal purpose of the Code is to ensure that the interests of a company's members are protected and represented at the board level. The preface to the Code states that "the function should be to help boards discharge their duties in the best interests of their companies." The preamble to the OFWAT Principles states that "any departures from the [OFWAT] principles should be by exception in the spirit of corporate governance for listed companies." In the context of a privately held company with a single shareholder, we consider it to be in accordance with good corporate governance practice for there to be a significant number, if not a majority, of shareholder representatives on the Board. Wessex Water also has four highly capable and experienced Independent Non-Executive Directors on the Board.

The composition of the Board will be periodically reviewed to ensure that it remains effective, taking into account that Wessex Water is a private company with a single shareholder.
We expect all Directors to attend Board meetings and those Committees on which they sit save where prevented by prior commitments or illness. Use of alternates is expected to be limited. Records of attendance will continue to be maintained by the Company Secretary and reported upon in the Annual Report.

**Chairman and Chief Executive**

The Chairman of Wessex Water, Francis Yeoh, is a shareholder appointed Non-Executive Director to reflect the fact that Wessex Water has a single shareholder. The Group Chief Executive Colin Skellett is an Executive Director.

We will provide contact details to OFWAT of the senior Independent Non-Executive Director to enable OFWAT to raise any regulatory issues directly with such senior Independent Non-Executive Director rather than the Chairman.

**Board Committees**

All Board Committees will continue to operate at the level of Wessex Water, without external influence and in a manner comparable with those of listed companies.

The Audit Committee is comprised entirely of Independent Non- Executive Directors.

Our sole shareholder has a clear interest in remuneration policy and Board appointments. Accordingly, the Chair of the Board’s Remuneration Committee and Nominations Committee is a shareholder appointed Non-Executive Director. However, we will maintain an appropriate balance on the two Committees through Independent Non-Executive Directors being the largest group on the Remuneration Committee and the majority on the Nominations Committee.

The Board will continue to retain responsibility for making the final decision on matters considered by its Committees.

Details of the membership of Committees, the number of times they met and attendance at each meeting will continue to be reported in the Annual Report.

**Group Structure**

We understand the need for customers and other stakeholders to understand the Group structure within which Wessex Water operates. We will maintain a transparent group structure with details reported in our Annual Report.