



SOUTH STAFFORDSHIRE WATER PLC

Board Leadership, Transparency and Governance Code

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Background

The Board of South Staffordshire Water PLC (the “Company”) has always placed good governance at the core of what it does and believes that this is reflected in the Company’s strong performance. The Board recognises its responsibilities to all of its stakeholders and is therefore committed to maintaining high standards of leadership, transparency and governance. With this in mind, the Board has developed a Corporate Governance Code (the “Code”) which meets and exceeds Ofwat’s principles on Board leadership, transparency and governance, published January 2014. Although South Staffordshire Water is not a public listed company, the Board recognises that they should act as such and therefore the Code has also drawn on principles of the UK Corporate Governance Code that may be applicable to a privately-owned regulated company. The Company will also comply with the requirements of the Walker Guidelines on transparency and disclosure.

The purpose of this document is to set out our approach to Corporate Governance.

Commitment

The Board is committed to maintaining high standards of leadership, transparency and governance. The Board commits to publishing a copy of the Code on the Company’s website. The Board will transparently confirm the Company’s compliance with the Code and will explain any departures from the Code in the Company’s annual report.

The Code will be reviewed at least every three years.

The Principles of the Code

A: Transparency – Reporting will meet or exceed the standards set out in the Disclosure and Transparency Rules that can be reasonably applied to an unlisted company.

Main Principles

A.1.1 The business review in the annual report will reflect material issues, including discussing areas such as group structure, Company performance and key risks to the business.

A.1.2 The form of the corporate governance statement should meet the requirements of the Disclosure and Transparency Rules for listed companies, where applicable to an unlisted company.

A.1.3 The Company will be transparent regarding the remuneration of Directors and will explain in the annual report how the remuneration of Directors is linked to standards of performance in the Company.

A.1.4 The Company shall use media such as the annual report, regulatory accounts and websites to transparently disclose such information to the relevant audiences.

Supporting Principles

A.2.1 The Board should present a fair, balanced and understandable assessment of the Company's position and prospects in its annual and regulatory accounts, which will be publically available.

A.2.2 The Board shall establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable.

A.2.3 The Directors will explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders and other audiences to assess the Company's performance, business model and strategy.

A.2.4 The Directors should include in the annual report an explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the Company.

A.2.5 The Directors shall report in the annual report that the business is a going concern, with supporting assumptions or qualifications as necessary.

A.2.6 There will be a statement in the annual report by the auditors about their reporting responsibilities.

B: The Company will act as if it is a separate public listed company.

Main Principles

B.1.1 The Company will act as if it were a separate publicly listed company, being a regulated water undertaker as its sole business.

B.1.2 The primary focus of the Board will be the strategy to deliver the service and performance to meet the needs of customers, the environment, the business, employees and shareholders.

B.1.3 The Board should 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.

B.1.4 The Board should be in a position to make well-informed and high-quality decisions that are based on a clear line of sight into the business, and to make decisions that are in the best interests of the Company, consistent with their statutory and regulatory duties.

B.1.5 The Board should have the necessary powers to make strategic and sustainable decisions in the interests of the Company for the long term.

B.1.6 The composition of the Board should be sufficiently strong and equipped to make strategic decisions about all aspects of the business.

B.1.7 The Board should provide clear direction for management and create a framework that supports Directors in meeting their statutory and regulatory duties.

B.1.8 It should be clear to all members of the Board what decisions the 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.

Supporting Principles

B.2.1 The Board of South Staffordshire Plc may be involved in some decisions. The Company will consider the number and nature of matters that are reserved for shareholders in a public listed company when deciding what matters are reserved to the holding company board, and these will be clearly articulated in the annual report.

B.2.2 The annual report will include a statement of how the Board operates (including which decisions are to be taken by the Board and which are delegated to management).

B.2.3 The Board should meet sufficiently regularly to discharge its duties effectively. For those months when the Board does not meet, members will receive the regular operational and financial performance reports.

B.2.4 Where directors have concerns which cannot be resolved about the running of the Company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive Director should provide a written statement to the Chair, for circulation to the Board, if they have such concerns.

B.2.5 All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge, supported by the Chair. The Board should have appropriate knowledge of the Company and access to its operations and staff.

B.2.6 All Directors will have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the Company Secretary will be a matter for the Board as a whole.

B.2.7 The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

B.2.8 The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

B.2.9 The Company will maintain appropriate insurance cover for legal action against directors and senior management.

C: There must be significant independent representation on the Board.

Main Principles

C.1.1 The independence of non-executive Directors will be assessed according to the criteria set out in the UK Corporate Governance Code.

C.1.2 The Board should include an appropriate combination of non-executive and executive Directors. Independent non-executive Directors should be the largest single group on the Board,

compared to executive Directors and non-executive Directors that are not independent, but with no individual or grouping able to dominate Board decision making.

C.1.3 The number of investor representatives should be no greater than the number of independent non-executives.

C.1.4 All Directors should attend and fully participate in each Board meeting. Alternates will not routinely attend and vote at Board meetings in place of directors. The annual report should set out the number of meetings of the Board and individual attendance by directors.

C.1.5 In line with best practice, the Board should have the appropriate balance of skills, experience, independence and knowledge of the Company.

C.1.6 The Board should comprise a diverse but relevant set of skills and experience. A periodic review of the composition of the Board, as well as evaluation of individual Directors, should take place to ensure that it remains effective. Such evaluation should be rigorous and formal and, where possible, take into account of the roles set out in the FRC Guidance on Board Effectiveness. The Board should act on any weaknesses it finds and report on how the performance evaluation was conducted in the annual report.

C.1.7 There should be a formal, rigorous and transparent procedure for the appointment of all new Directors to the Board. Decisions around new appointments should be made in the context of the skills and experience of the whole Board, not solely on individual merits.

Supporting Principles

C.2.1 The annual report will identify the Chairman, Managing Director and the senior independent Director.

C.2.2 Non-executive Directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

C.2.3 The Board will identify in the annual report each non-executive Director it considers to be independent. The Board should consider whether the director is independent in judgement and character and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

C.2.4 The terms and conditions of appointment of non-executive directors will be made available for inspection upon request. The letter of appointment should set out the expected time commitment and non-executive Directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the Board before appointment, with a broad indication of the time involved and the Board should be informed of subsequent changes.

C.2.5 The Board will appoint one of the independent non-executive Directors to be the senior independent Director.



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C.2.6 Independent non-executive Directors should have the opportunity to meet the Chair without the executive or other non-executive Directors being present.

D: Where possible, the Chairman must be independent of management and investors.

Main Principles

D.1.1 The Chair should, where possible, be independent of investors and management and should not be the CEO or former executive Director of the Company or another Group company. However, the Company may appoint a Chair that is not considered independent if deemed appropriate and following consultation with Ofwat. In these circumstances, there should be a senior independent non-executive Director with whom all appropriate regulatory interactions would also take place.

D.1.2 The Chair should generate effective debate and provide constructive challenge, and should be able to demonstrate that the Board acts independently and exclusively in the interests of the Company.

D.1.3 There should be a clear division of responsibilities between running the Board and executive responsibility for running the business. Consequently, the roles of Chairman and Managing Director should not be exercised by the same individual.

Supporting Principles

D.2.1 The Chair is responsible for setting out the Board's agenda and ensuring adequate time is available for discussion of all agenda items, in particular strategic issues. The Chair should also facilitate the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors.

D.2.2. The Chair will be responsible for ensuring that the Directors receive accurate, timely and clear information.

E: Board committees will operate at the Regulated Company level.

Main Principles

E.1.1 All Board committees and accountabilities should operate at the Regulated Company level. These committees should be led by independent non-executive Directors, with independent non-executives being the majority group. Any departure from this should be explained.

E.1.2 Board committees should ensure that their focus is fully aligned with the aims and needs of the Company.

E.1.3 Final decisions on issues dealt with by each of the committees will be made by the Board.

E.1.4 The independent non-executive Directors on a committee should have the requisite financial and other relevant knowledge to provide appropriate challenge, assurance and to demonstrate legitimacy of the committee.

E.1.5 The membership and description of the work of the committees, the number of times they met and the attendance at each meeting shall be reported in the annual report.

Supporting Principle

E.2.1 The Board should establish an audit committee of at least two independent non-executive Directors. The Board shall satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

E.2.2 The Board should establish a nomination committee, which leads the appointment of new directors and makes recommendations to the Board.

E.2.3 The Board should establish a remuneration committee.

E.2.4 The main roles and responsibilities of each of the committees, including its role and the authority delegated to it by the Board, should be made available upon request.

F: The group structure must be explained in a way that is clear and simple to understand.

Main Principle

F.1.1 The structure of the Group in which the Company sits should be explained clearly in the annual report and on the Company's website.

G: The Board should maintain sound risk management and internal control systems.

Main Principle

G.1.1 The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

G.1.2 The Board will report on the Company's principal risks and the controls taken to mitigate those risks in the annual report.

Supporting Principle

G.2.1 The Board should, at least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems and should report that they have done so. The review should cover all material controls, including financial, operational and compliance controls.