

Bournemouth Water Ltd

Leadership, transparency & governance – a code for compliance. May 2015

The company is a statutory water undertaker, holding a licence granted by the Secretary of State and is a monopoly service provider to most of its customers within its defined geographic area. As such, most of the company's customers do not have a choice about their water supplier. The company aims to provide very high standards of service while at the same time operating to very high standards of governance. This is important in order that all stakeholders can be confident that the company's Board is leading the company, while making decisions that appropriately balance the interests of shareholders and investors with those of customers and other stakeholders, and at the same time being open and transparent.

The company is regulated by a number of organisations. The Water Services Regulation Authority (OFWAT) is the key economic regulator who periodically sets the maximum revenue that can be collected for the water supply service, and monitors performance against many of the requirements of the company's licence. One of the regulator's primary duties is to protect the interests of consumers.

There are some key requirements and publications which the company takes into account in setting its policies and procedures in respect of leadership, transparency and governance. These include (but are not limited to):

- The company's Licence, which refers to the regulated activities of the company as its "Appointed Business"
- [The UK Corporate Governance Code](#)
- [A publication by OFWAT "Board leadership, transparency and governance – principles"](#) January 2014

Bournemouth Water's Leadership, Transparency and Governance Code will be formally reviewed at least annually by the Board.

The Board is aware of the conditions in the company's licence which require the company to conduct and report on its Appointed Business affairs as if its sole business is a water undertaker having its equity share capital listed on the London Stock Exchange and have particular regard for the following:

- That the board is composed in such a way that it is fully capable of acting independently of its parent company;
- where potential conflicts exist between the interests of the regulated company as a water undertaker and those of other group companies (including holding companies), the regulated company and its directors must ensure that, in acting as directors of the regulated company, they should have regard exclusively to the interests of the regulated company as a water undertaker;
- the UK Corporate Governance Code;
- the requirement to transact only with associated businesses in an arm's length manner. An associated business is one where there is part or whole common ownership or control.

Condition K of the licence requires the company to ensure, so far as is reasonably practical, that if a special administration order were made, the company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company.

Condition P of the licence requires the company to obtain legally enforceable undertaking from its ultimate controller(s) that the ultimate controller will:

- provide the regulated company with all the information it needs to comply with its obligations under the Water Industry Act 1991 or its licence;
- refrain from any action which would or may cause the regulated company to breach any obligations under the Water Industry Act 1991 or its licence; and
- ensure that there are no less than three independent non-executive directors on the regulated company's Board.

Save as set out below the Board is satisfied that the above conditions are met and will ensure that this continues to be the case.

The ultimate controller of the regulated business is Pennon Group Plc, incorporated in the United Kingdom (Registered. No. 02366640) and listed on the London Stock Exchange. Pending resolution of the merger reference before the Competition and Markets Authority in respect of the acquisition by Pennon of the company Ofwat has not requested and Pennon has not given a legally enforceable undertaking as required by the company's licence.

Independent non-executive directors form the largest single group on the Board compared with executive directors and non-executives who are not independent. The makeup of the company's Board is as follows:

Independent Chairman	Peter Millward, also Chair of the Nomination Committee
Independent Non-executive and Chair of the Audit Committee	Elizabeth Catchpole
Independent Non-executive and Chair of the Remuneration Committee	Angela Lane
Non-executive Director and Representative of the Shareholder	Christopher Loughlin
Non-executive Director	Gerard Connell
Managing Director	Bob Taylor
Finance Director	Philippa Goodwin

In conducting and reporting on its Appointed Business as if listed on the London Stock Exchange, the Board aims to follow the guidance in the UK Corporate Governance Code in so far as it is applicable. Below is a brief summary of the key requirements, extracted from the Code in order to compare the actions taken by the company with those recommended. Everything described below takes place at regulated business level. There are a small number of areas where actions recommended by the Code need to be made more explicit by the company and these will be completed by April 2015.

The UK Corporate Governance Code –September 2012

Key points

Definition of context:

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meetings.

Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and is to be distinguished from the day to day operational management of the company by full-time executives.

To follow the spirit of the Code to good effect, boards must think deeply, thoroughly and on a continuing basis about their overall tasks and the implications of these for the roles of their individual members. Absolutely key in this endeavour are the leadership of the chairman of a board, the support given to and by the CEO, and the frankness and openness of mind with which issues are discussed and tackled by all directors.

The "comply or explain" approach is the trademark of corporate governance in the UK. It has been in operation since the Code's beginnings and is the foundation of the Code's flexibility. It is strongly supported by both companies and shareholders and has been widely admired and imitated internationally.

The Code is not a rigid set of rules. It consists of principles (main and supporting) and provisions. The Listing Rules require companies to apply the Main Principles and report to shareholders on how they have done so. The principles are the core of the Code and the way in which they are applied should be the central question for a board as it determines how it is to operate according to the Code.

Smaller listed companies, in particular those new to listing, may judge that some of the provisions are disproportionate or less relevant in their case. Some of the provisions do not apply to companies below the FTSE 350.

The Code covers five main principles. Each is supported by a number of requirements, which are summarised below:

Note: some abbreviations are used in the schedule below:

- AC = Audit Committee
- RC = Remuneration Committee
- CEO = Chief Executive Office
- NED = Non-Executive Director

The main principles of the UK Corporate Governance Code

	Key principle		Compliant? & any comments
Section A – Leadership	Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	<ul style="list-style-type: none"> • Board to provide entrepreneurial leadership within a framework of controls • Board to set strategic aims • Directors to act in best interests of company, subject to legal obligations • Meet sufficiently regularly to discharge duties • Annual report to identify Chairman, CEO, and members of committees, number of meetings etc. • Have insurance in place to cover directors 	<ul style="list-style-type: none"> • Yes, Board members from both the water and a range of other industries with strong track records in leadership • Yes, Annual Board strategic away days set the strategic direction • Yes, predominance of independent non exec directors. Only one shareholder representative on Board • Yes. Meets at least six times a year plus meetings of Board committees and at least two special strategy days • Yes • Yes
	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	<ul style="list-style-type: none"> • CEO and Chairman should not be same person 	<ul style="list-style-type: none"> • Chairman is an independent non-executive role which is separate from the executive managing director and finance director. • No one person has unfettered powers of decision.
	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	<ul style="list-style-type: none"> • Chairman to set agendas allowing time for all items • Chairman to ensure all directors receive accurate and timely info. • Chairman to ensure effective communications with shareholders • Chairman should meet independence criteria on appointment 	<ul style="list-style-type: none"> • Yes • Yes, through monthly broad ranging Board reports and one off papers. • Yes, both through reports and personal communication. • Yes and kept under review throughout term.

	Key principle		Compliant? & any comments
	As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	<ul style="list-style-type: none"> • NEDs should scrutinise management info • NEDs should be satisfied with the integrity of financial information • NEDs should be satisfied that systems of financial and risk control are robust • NEDs should be responsible for determining exec directors remuneration, and have a primary role in appointments and dismissal, and in succession planning • Chairman should hold meetings with NEDs without execs present • NEDs should meet without the Chairman to appraise his or her performance • NEDs should ensure any concerns about the running of the company are recorded in minutes 	<ul style="list-style-type: none"> • Yes, at least monthly + ad-hoc reporting as necessary • Yes, AC interrogates executives and auditors • Yes. Audit Committee oversees approach to management of risk • Determined by Remuneration Committee and by Nominations Committee, comprising independent directors only • Yes, at least annually • Yes • Yes, minutes are comprehensive and any concerns would be recorded
Section B: Effectiveness	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	<ul style="list-style-type: none"> • Board should be of sufficient size to meet requirements of business • Appropriate combination of exec and NEDs • Should not have undue reliance on one person for committees etc. • Identify in annual report the independent directors (see rules for independence) • Except for smaller companies, at least ½ board excluding Chairman, should be NEDs 	<ul style="list-style-type: none"> • Seven directors plus Company Secretary, considered appropriate • Three independent NEDs, 2 other NEDs and two executive directors • Yes, and kept under review • Yes – see Annual Report • Yes, four NEDs, two executive directors plus Chairman,

	Key principle		Compliant? & any comments
	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	<ul style="list-style-type: none"> • Objective criteria for selection of new directors • Should be a nominations committee, chaired by an independent NED • Plans in place for succession • Work of nominations committee to be described in annual report 	<ul style="list-style-type: none"> • Yes, Nominations Committee records the selection criteria • Yes, chaired by Co. chairman • Kept under review • Yes
	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	<ul style="list-style-type: none"> • T&Cs of appointment of NEDs should be available for inspection • Changes in other significant commitment to be disclosed to the board 	<ul style="list-style-type: none"> • Yes • Yes. The Board maintains a register of interests
	All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	<ul style="list-style-type: none"> • Inductions to be given to new NEDs • Knowledge should be regularly refreshed • Chairman should review training needs for NEDs 	<ul style="list-style-type: none"> • Yes. Comprehensive • Yes. • Yes
	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	<ul style="list-style-type: none"> • Chairman to ensure that directors receive accurate and timely info. • Co. Sec to ensure good flow of info. • Co. Sec to advise all directors on governance matters • All directors to have access to advice from Co. Sec 	<ul style="list-style-type: none"> • Yes, through monthly broad ranging Board reports and one off papers • Yes • Yes + any director may take independent professional advice • Yes
	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	<ul style="list-style-type: none"> • Consider the balance of skills experience and independence • How board works as a unit • Disclose in annual report how review has been conducted • For FTSE 350 companies, external facilitation at least every 3 years • NEDs to evaluate performance of chairman 	<ul style="list-style-type: none"> • Yes, at least every 2 years • Yes, formal review at least every 2 years • N/A • Yes • Chairman evaluates performance of the individual executive directors at least annually

	Key principle		Compliant? & any comments
	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	<ul style="list-style-type: none"> • For non- FTSE 350 companies, re-election every 3 years • Annual re-election for INEDs serving > 9 years 	<ul style="list-style-type: none"> • All directors are submitted for re-election every 3 years, with one third being submitted each year • Yes
Section C: Accountability	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	<ul style="list-style-type: none"> • Explain in annual report board's responsibility for accounting and presenting a balanced and fair view • Explain in annual report the basis upon which the company generates or preserves value over the longer term and the strategy • Going concern assertion 	<ul style="list-style-type: none"> • Yes • The focus of the annual Strategic Report is on meeting statutory and service obligations and objectives in a cost effective manner as this is what creates value for the company. • Yes, Licence Condition F6A Certificate issued each year
	The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	<ul style="list-style-type: none"> • At least annual review of the effectiveness of risk management and internal controls- report to shareholder that have done so. 	<ul style="list-style-type: none"> • Yes. The executive also report formally to the shareholder and Audit Committee on the effectiveness of internal controls on a quarterly basis
	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	<ul style="list-style-type: none"> • Have an audit committee • For smaller companies, at least 2 independent NEDs. • Co. chairman may be a member of, but not chair of, the AC • One member of AC to have recent and relevant financial experience • Written terms of reference for audit committee (code lists what these should include) • Where requested, AC to advise board on whether accounts represent a fair and balanced view etc. 	<ul style="list-style-type: none"> • Yes • Two independent directors. • Chairman is not a member of the AC • Yes. • Yes • Yes

	Key principle		Compliant? & any comments
		<ul style="list-style-type: none"> AC should review arrangements for confidential reporting of possible improprieties. AC to monitor effectiveness of internal audit AC to have primary responsibility for appointment (or removal) of Auditors Section of annual report to describe work of AC 	<ul style="list-style-type: none"> Yes. Arrangements in place for whistleblowing + direct access by managers in compliance monitoring roles, which includes reporting to the shareholder Re-appointment of Auditors confirmed at AGM Yes
Section D: Remuneration	Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	<ul style="list-style-type: none"> Exec remuneration should be stretching Code includes a detailed Schedule of advice to RCs 	<ul style="list-style-type: none"> RC and Board set stretching objectives Taken into account by RC
	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	<ul style="list-style-type: none"> RC should, for smaller companies, comprise at least 2 independent NEDs Co. Chairman may be a member but not chair RC Terms of reference for RC should be available RC should have delegated authority for setting remuneration of all exec directors and the Co. chairman RC should recommend and monitor the structure of remuneration for senior management. 	<ul style="list-style-type: none"> Comprises 3 independent directors Co. Chairman is a member but not Chair. Chaired by another independent director Yes Yes Yes, for executive directors and the senior management team

	Key principle		Compliant? & any comments
		<ul style="list-style-type: none"> • Board itself (where permitted by the Articles) should determine remuneration of NEDs- may delegate to a committee • Shareholder should be invited to approve all long term incentive schemes. 	<ul style="list-style-type: none"> • Recommended by RC but approved by the Board • Yes. Exec directors take part in shareholder's own long term scheme
Section E: Relations with Shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	<ul style="list-style-type: none"> • Recognised that much contact is via CEO or FD. • Chairman to ensure that views of shareholders is communicated to board as a whole. • Chairman to discuss governance issues with major shareholders • Annual report should cover the steps taken to ensure members of the board develop an understanding of shareholder views 	<ul style="list-style-type: none"> • Yes on a routine basis • Yes • Yes • Co. has a single shareholder, who is represented on the board by one person
	The board should use the AGM to communicate with investors and to encourage their participation	<ul style="list-style-type: none"> • At any general meeting, the company should propose a separate resolution on each substantially separate issue. • Ensure that all valid proxy appointments are properly recorded • Properly record results of any voting. • Chairs of board committees to be available 	<ul style="list-style-type: none"> • Yes. Note: Co. has one shareholder. • Yes • Yes • Yes

OFWAT's guidance on leadership, transparency and governance

The company supports the principles set out by OFWAT in respect of transparency and an expectation that as monopolies, water companies should operate to very high standards of governance, and to clearly set out how they do this.

Although many of the components are covered by the company's commitments to follow the guidance contained in the UK Corporate Governance Code (above), these key principles are set out below:

1. Principles

Principle	Rationale and expectations	
<p>Transparency – 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 water 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. Typically, this would involve discussing areas such as:</p> <ul style="list-style-type: none"> • group structure; • company performance; and • the key risks to the business. <p>We expect companies to ensure that the information is accessible to the audiences for this information. It will be for companies to determine the best means of making this information transparent. Typically, that could be through the use of media</p>	<p>The company is not listed on a stock exchange, but conducts its business as if it were. The company is a wholly owned subsidiary of Pennon Group Plc, a company listed on the London Stock Exchange. Pennon Group Plc operates to very high standards of governance and transparency and reports openly and transparently. Its annual reports can be found on its website at: http://www.pennonannualreport.co.uk/2014/assets/pdfs/Pennon_AR14_Financial_Statements.pdf</p> <p>Bournemouth Water Ltd. follows the guidance of the UK Corporate Governance Code in respect leadership by its Board and reporting into the public domain through its annual report and will follow the rules for disclosure for listed companies.</p> <p>The company will report on its service performance at least annually and in a manner that is aimed at giving its customers a good understanding of the quality of service, as well as whether the company has delivered any commitments made as part of the service/price package being paid for.</p> <p>The annual report for a March year end and normally published in July each year sets out the remuneration of all directors and the company will consider how to make this as transparent as possible and in line with any requirements for listed companies.</p> <p>The executive directors also take part in a long term incentive arrangements operated by the shareholder, details of which are disclosed.</p>

Principle	Rationale and expectations	
	<p>such as the annual report, regulatory accounts and websites.</p> <p>We consider that the Disclosure and Transparency Rules set out the standard of disclosure that regulated companies should operate – wherever applicable. For example, 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>In relation to transparency around the remuneration of directors, we expect companies to consider whether and how to take account of the requirements (since 1 October 2013) that apply to the Directors' Remuneration Report for a quoted company.</p>	
<p>The regulated company must act as if it is a separate public listed company</p> <p>An effective Board is fully focused on the regulated</p>	<p>We expect the Board of the regulated company to have full control of the business. It should have ownership of the strategy, and there should be a strong independent element to the Board to provide constructive challenge and help develop proposals. It should provide</p>	<p>The company's Board has been and will continue to be in full control of developing and steering strategy. It ensures that it adequately understands the company's duties and obligations for a safe and reliable water supply well into the future in addition to the need for this to be at the lowest possible cost and aligned with customers wishes and needs for the service.</p> <p>In setting strategy and policy the Board takes into account the views and advice of the company's shareholder which is very valuable because of the wide experience and knowledge gained from operating a larger British water business. The company's shareholder has been</p>

Principle	Rationale and expectations	
<p>company's obligations</p>	<p>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 regulated company.</p> <p>Given the long-term nature of the water sector, it is important that the Board of the regulated company has the powers necessary to make strategic and sustainable decisions in the interests of the company 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.</p> <p>It is important for companies in the water sector that the composition of the Board of the regulated company 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</p>	<p>very clear that it will not take any action or limit any action by the company that might prevent it from meeting its obligations.</p> <p>The Board takes time at least annually to consider strategy in depth and these discussions involve the shareholder's representative.</p> <p>If there are any matters reserved for the shareholder, these will be articulated in the annual report.</p>

Principle	Rationale and expectations	
	<p>what decisions it 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>In practice, we recognise there may be decisions where, as an exception, the holding company 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 holding company Board. These should be clearly articulated in the annual report.</p> <p>It should be clear to stakeholders that the Board of the regulated company is leading the company, both in terms of accountability and legitimacy.</p>	
<p>There must be significant independent representation on the Board</p> <p>Independent non-executive directors are</p>	<p>The water sector is unique in the way it operates. So, it 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 regulated company Board is the strategy to deliver the</p>	<p>The company's Board has a strong independent component in line with the terms of its Licence and in line with the guidance for UK listed companies.</p> <p>Independent directors form the largest group on the Board. Directors as at April 2015 are listed earlier in this document. There are robust arrangements in place to ensure that experience and knowledge is properly considered before appointment.</p> <p>The Board formally and rigorously reviews its effectiveness and that of its committees and individual directors at least once every two years.</p>

Principle	Rationale and expectations	
<p>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>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. The UK Corporate Governance Code sets out the circumstances in which a non-executive director may not be considered to be independent.</p> <p>We expect independent directors (including an independent Chair) to be the largest single group on the Board, compared with:</p> <ul style="list-style-type: none"> i. executive directors; and ii. Non-executive directors who are not independent. <p>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 of</p>	<p>There is one director only who is a representative of the shareholder.</p> <p>Only two executives are directors, the managing director and the finance director.</p> <p>All directors are expected to allocate sufficient time to the company in order to discharge their responsibilities effectively. Attendance at Board and Committee meetings is reported in the annual report.</p> <p>There are no alternates to directors.</p> <p>No one person has unfettered powers of decision.</p>

Principle	Rationale and expectations	
	<p>the regulated company; however, the number of investor representatives should be no greater than the number of independents (excluding an independent Chair).</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; but we expect that there will be fewer executives than independent non-executive directors on the Board.</p> <p>We expect all directors to attend and fully participate in each Board meeting. Regular use of alternates for Board members has a negative impact on the continuity and efficacy of the Board. We consider that there is not a routine 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</p>	<p>The Board's Nominations Committee, comprising non-executive directors with a majority of independent directors, leads any process for recruitment to the board and makes recommendations to the whole Board. It carefully considers the skills and experience needed.</p> <p>The Board will regularly review key requirements of the Licence to ensure that there is sufficient attention to its terms and that the company has in place sufficient mechanisms to comply.</p>

Principle	Rationale and expectations	
	<p>individual directors, will ensure that it remains effective. Unlike some other regulatory frameworks, 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 and areas of expertise. The Financial Reporting Council's 'Guidance on Board Effectiveness' sets out the personal attributes that are demonstrated by effective independent non-executive directors that lead to ethical leadership.</p> <p>The Board of the regulated company 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:</p>	

Principle	Rationale and expectations	
	<ul style="list-style-type: none"> • skills; • experience; • independence; and • knowledge of the company. <p>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 as part of the governance of the regulated company, made up of a majority of independent non-executive directors, which leads the process and makes recommendations to the Board.</p>	
<p>The Chair must be independent of management and investors</p>	<p>An independent Chair should be independent of investors and management.</p> <p>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</p>	<p>The company's chairman is independent of both investors and the management. The current chairman assumed his position in January 2015 following the retirement of his predecessor.</p> <p>The independent chairman's role is separate from that of the chief executive. The chairman has not been an executive of the company or any other group company.</p> <p>The chairman is not in any way linked to the company's shareholder, and therefore the Board does not consider it necessary to have a senior independent director.</p>

Principle	Rationale and expectations	
	<p>company to demonstrate that the Board perceptibly acts independently and exclusively in the interests of the regulated company.</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 as they would be unable to bring the same impartiality or lack of preconception as a truly independent Chair. This will also be the case if the Chair is a former executive director of the company or another group company.</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 water sector as a whole.</p> <p>We recognise that in very limited circumstances – for example, if the ultimate controller of the regulated company is a single entity – an</p>	<p>The Board is fully aware of its responsibilities to ensure arm's length trading with any associated company. That is any company that is wholly or partly within common ownership or control. This means adequately ensuring that in the event of trading with an associated company, appropriate steps are taken to ensure that the goods to services sold or bought are at market price and non-price terms.</p>

Principle	Rationale and expectations	
	<p>independent Chair 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 there to be a senior independent non- executive director with whom all equivalent regulatory interactions would take place.</p>	
<p>Board committees, including but not limited to audit and remuneration committees will operate at the regulated company 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 within the regulated company. Independent non-executive directors should be the majority group on the audit and remuneration committees. Ideally, committees should be led by independent non-executive directors. Where committees, such as the remuneration committee, do not have a majority of independent members or are not chaired by an independent non-executive director we expect companies to explain why their approach is appropriate.</p> <p>We expect Board committees to operate at the regulated company level to ensure that the focus is</p>	<p>All Board committees and their accountabilities operate wholly within the regulated company. All committees are led by independent directors. Details are as follows:</p> <p>Audit Committee</p> <ul style="list-style-type: none"> • two independent directors <p>Remuneration Committee</p> <ul style="list-style-type: none"> • three independent directors plus one non-executive who is not independent <p>Nominations Committee</p> <ul style="list-style-type: none"> • three independent directors plus two non-executives who are not independent. <p>Details of the membership of each committee are contained in the annual report.</p> <p>The company is satisfied that directors on its committees have the requisite financial and other knowledge to provide appropriate challenge.</p>

Principle	Rationale and expectations	
	<p>fully aligned with the aims and needs of that company, not the holding company.</p> <p>Final decisions on issues dealt with by each of the committees will be made by the Board of the regulated company and we expect committees to operate in a comparable way to those of listed company Boards.</p> <p>The independent directors 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 group structure must be explained in a way that is clear and simple to understand</p>	<p>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</p>	<p>The structure of the group within which the company sits is attached. The structure is reviewed and simplified on an ongoing basis in order to promote transparency and clarity. The directors consider that the group gains no significant tax or other benefits from the structure in which it holds the regulated company. Pennon Group Plc (the ultimate controlling company) sets out clearly the group structure and ownership in its annual report.</p>

Principle	Rationale and expectations	
	company is structured, especially as the corporate structure for some groups is complex.	

The Board will review this Code, compliance with it and any need to make amendments which might be necessary in order to meet changing circumstances at least annually.

On behalf of the Board

Bob Taylor
Managing Director – April 2015

There follows a structure chart showing how Bournemouth Water Limited sits within the group under its shareholder, Pennon Group Plc.

Pennon Group Plc
No: 02366640
Reg. Office: Peninsula House, Rydon Lane,
Exeter, EX2 7HR

Bournemouth Water Investments Ltd
No: 05321147
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

Bournemouth Water Ltd
No: 02924312
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

BWH Enterprises Ltd
No: 03764413
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

Alderney Water Ltd
No: 05598451
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

West Hampshire Water Ltd
No: 05598453
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

AquaCare (BWH) Ltd
No: 06523232
Reg. Office: George Jessel House, Francis Avenue,
Bournemouth, BH11 8NX

Avon Valley Water Ltd
No: 06691170
Reg. Office: Knapp Mill, Mill Road, Christchurch, Dorset
BH23 2JY

Mill Stream Insurance Ltd
Guernsey
Managers: Willis Management
(Guernsey) Limited