

SOUTH WEST WATER LIMITED

BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE CODE

Introduction

South West Water and its holding company, Pennon Group Plc, is committed to operating to the highest standards of board leadership and governance including transparency of reporting to its investors, customers, regulators and other stakeholders.

The South West Water Board recognises that it is responsible for providing vital services relating to water supply and sewerage disposal and in doing so acting responsibly to ensure the protection of the environment, the sustainability of its operations and the satisfaction of its customers' needs.

Both the South West Water and Pennon Group Boards are committed to the principles on board leadership, transparency and governance published by Ofwat in September 2013 and January 2014. South West Water will take into consideration in complying with this Code the legitimate expectations of its shareholders.

To assist transparency this Code sets out how South West Water (the Company) complies with the Ofwat principles. The Code also embraces as appropriate the UK Corporate Governance Code which applies to listed companies, including Pennon Group Plc.

A Transparency

A1 Principle – Reporting to meet or exceed the standard set out in the Disclosure and Transparency Rules of the UK Listing Authority.

A1.2 – Supporting Principle – Operation at the highest standards of governance and transparent reporting of how this is achieved.

A1.3 – Application of Principle – Through its Annual Report, regulatory accounts (incorporating the company's sustainability reporting), website and customer and media communications the Company explains:

- how it is organised, including a clear and unambiguous description of its group structure;
- company performance including financial results and the meeting of customer standards;
- key risks to the business and how it is managing those risks;
- key developments including major investments and service improvements planned;
- compliance with the Disclosure and Transparency Rules including the UK Corporate Governance Code to the extent that it can be applied to a private limited company. This includes reporting on:-
 - matters reserved for the Board's decision and delegated matters and any of those matters which are reserved for the Pennon Group Board as the owning Company of South West Water Limited;
 - the Company's business model and strategy;

- details of the Chairman, the Group Chief Executive, the Managing Director, the Finance Director, the independent Non-executive Directors and the Board Committees and their membership;
- the biographies of the Chairman and each Director including their experience and any other commitments they may have and how such commitments are managed;
- Board and Committee attendance by each Director;
- Terms of Reference of each Committee and an explanation of material matters dealt with;
- details of Board and Committee evaluations and their outcomes;
- Directors Responsibility Statements including confirmation that reporting is fair, balanced and understandable; and
- the external auditor's report on its responsibilities in relation to the Company.

B Independence

B1 Principle – Acting as if it is a separate Public Listed Company.

B1.2 - Supporting Principle – Board to be fully focused on the Company's obligations as a regulated company.

B1.3 - Application of Principle – The Board does act as if it is a separate Public Listed Company in so far as it is appropriate to do so as a private company. It is focused on operating as a regulated water and sewerage undertaker in accordance with the provisions of its Licence of Appointment as such an undertaker. In doing so the Board has proper regard to the views and legitimate expectations of its customers, regulators, shareholders, employees and other stakeholders;

Within this framework the Board leads the Company both in terms of accountability and legitimacy and is responsible for the setting of and ownership of the Company's strategy together with the ability to make ongoing strategic and sustainable decisions in the interests of the Company for the long-term.

C. Board Leadership and Composition

C1 Principle – Significant independent representation on the Board.

C1.2 Supporting Principle – Chairman independent of management and investors.

C1.3 Application of Principle – There is an independent Chair independent of investors and management. The division of responsibilities between the Chairman and the Chief Executive Officer is set out in Appendix A. Independence being defined as set out in B.1.1. of the UK Corporate Governance Code.

- C1.4 Supporting Principle – Independent Non-executive Directors being the largest single group on the Board.
- C1.5 Application of Principle – The Board membership consists of an independent Chairman (Principle C1.2), six independent Non-executive Directors and three Executive Directors (including the Group Chief Executive Officer). No alternate directors are appointed and all directors are expected to attend and fully participate at each Board Meeting other than arising from matters beyond their control.
- C1.6 Supporting Principle – Independent Non-executive Directors to have diverse and relevant skills and experience with personal attributes as set out in the UK Corporate Governance Code.
- C1.7 Application of Principle – the Terms of Reference of the Nomination Committee provides for the UK Corporate Governance Code when reviewing the suitability of candidates as independent Non-executive Directors.
- C1.8 Supporting Principle – Performance evaluation to be formal and rigorous.
- C1.9 Application of Principle – An annual externally facilitated performance evaluation is carried out of the Board and each Board Director, assessed by the Board and reported on in terms of weaknesses found and actions taken to improve performance in the Annual Report.
- C1.10 Supporting Principle – Formal, rigorous and transparent procedure for appointment of all new directors.
- C1.11 Application of Principle – Board new appointments are led by the Nomination Committee of the Board which is made up of a majority of independent Non-executive Directors with expert external facilitation as appropriate.

D. Board Committees

- D1 Principle – Board Committees operating at regulated company level.
 - D1.2 Supporting Principle – Audit, Remuneration and Nomination Committees to have a majority of independent members.
 - D1.3 Application of Principle – Each Committee has a majority of independent Non-executive Directors, led by an independent Non-executive Director. Each independent Non-executive Director has the requisite financial knowledge and experience to provide appropriate challenge.
 - D1.4 Supporting Principle – Transparent reporting.
 - D1.5 Application of Principle – Each Committee's Terms of Reference is published on the Company's website at www.southwestwater.co.uk/about-us/documents/terms-of-reference/ and formal reporting of the

composition, operation and activities of each Committee during the year is reported on in the Annual Report.

SOUTH WEST WATER LIMITED

CHAIRMAN AND CHIEF EXECUTIVE RESPONSIBILITIES

CHAIRMAN

The Chairman is responsible for leadership and the running of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda taking full account of the issues and concerns of Board members. In fulfilling that responsibility he should:

- In conjunction with the Chief Executive, ensure effective implementation of Board decisions and ensure that the Board meets sufficiently regularly to discharge its duties.
- Ensure the effective running of the Board ensuring that adequate time is made available for discussion of all agenda items, particularly on strategic issues.
- Ensure that the Board as a whole plays a full and constructive part in the development and determination of South West Water's strategy and overall commercial objectives.
- Ensure that the Board agendas take full account of important issues facing the Company and any concerns of Board members. The emphasis of the agenda should be on strategy rather than routine issues.
- Ensure that Board members receive accurate, timely and clear information on the company's performance, issues, challenges and opportunities facing the company and on matters reserved for its decision. Thereby enabling the Board to make sound decisions, monitor effectively and provide advice in order to promote the Company's success.
- Propose to the Board in consultation with the Chief Executive, Company Secretary and Committee Chairman as appropriate: a schedule of Matters Reserved for the Board's decision, Terms of Reference for each Committee of the Board and other Board policies and procedures.
- Ensure the Board, where appropriate, complies with the Board's approved procedures including the schedule of Matters Reserved for the Board for its decisions and that each Committee of the Board complies with its particular Terms of Reference.
- Ensure that all Board members are aware and understand any major issues and / or concerns of Pennon Group investors.
- Ensure that all new directors participate in a full, formal, tailored induction programme. Regularly review each Director's training and development needs.
- Ensure that directors continually update their skills, knowledge and familiarity with the company to enable directors to fulfil their role on the Board and any Committees of the Board.

- Ensure that the performance of the Board, its Committee's and individual directors is evaluated at least once a year and act on the results of the performance evaluation.
- Promote a culture of openness and debate at Board meetings and in particular facilitate the effective contribution of Non-Executive Directors by ensuring a constructive relationship between Executive and Non-Executive Directors.
- Arrange informal meetings of the Directors of the Board, including meetings of the Non-Executive Directors at which the Executive Directors are not present, as required, to ensure that sufficient time and consideration is given to complex, contentious or sensitive issues.
- Chair the Nomination Committee and in that role initiate change and succession planning in Board appointments to retain and build an effective and complementary Board. Proposing in conjunction with the Nomination Committee the membership of the Board Committees and their Chairman.
- Promote the highest standards of integrity, probity and corporate governance throughout the Company and particularly at Board level.
- Establish a close relationship of trust with the Chief Executive, providing support and advice but respecting executive responsibilities.
- Ensure that the Board determines the nature and extent of significant risk that the company is willing to embrace in the implementation of its strategy.

CHIEF EXECUTIVE

The Chief Executive, with the assistance of the Managing Director, is responsible for all executive management matters affecting South West Water and in particular for running, leading, managing and controlling the Company and its subsidiaries subject to those matters which are reserved for decision by the Board. In exercising his responsibilities he should:

- Exercise leadership of the executive management team to ensure that South West Water's business delivers the requirements of its customers, the regulator, shareholders and other stakeholders.
- Apprise the Board of all matters which materially affect South West Water and its performance.
- In conjunction with the Managing Director and the Executive team:
 - ensure that the decisions of the Board and its Committee's are fully implemented.
 - propose and develop strategy and overall commercial objectives for consideration by the Board.
 - formulate annual and medium term business plans indicating how the company's strategy will be delivered.
- With regard to South West Water's strategy ensure that the Board has regular opportunity to review challenge and approve it.
- Provide input from himself, the Managing Director, and the executive team into the Board's agenda.

- In conjunction with the Managing Director ensure that appropriate priority reports are provided to the Board with sufficient and timely information to enable the Board to fulfil its role.
- Provide input to the Chairman and Company Secretary on appropriate changes to the schedule of Matters Reserved for the Board and Board Committees Terms of Reference.
- Ensure that the executive team complies with Board procedures including the schedule of Matters Reserved for the Board and each Committee of the Board adheres to its Terms of Reference.
- In conjunction with the Chairman, ensure that Board members understand the views of Pennon Group investors.
- Ensure that the highest standards of integrity, probity and corporate / ethical governance are promoted within South West Water.
- In conjunction with the Managing Director and the Group Director of Safety, Health & Sustainability, ensure that appropriate Health, Safety and Environmental policy is maintained and observed within South West Water.
- In conjunction with the Managing Director and the Executive team, ensure that sound systems of internal control are maintained and that all major risks are adequately managed.
- Maintain a dialogue with the Chairman on important / strategic issues facing South West Water. Ensure the Chairman is aware of any complex, contentious or sensitive issues that affect South West Water.
- Provide information / advice on succession planning to the Chairman of the Nomination Committee particularly in respect of Executive Directors.

Note

Pursuant to the UK Corporate Governance Code / Code provision A.2.1 the roles of Chairman and Chief Executive are not exercised by the same individual.