

Governance Code

Portsmouth Water are pleased to support Ofwat in ensuring the Water Industry operates within the highest standards of Board Leadership, Transparency and Governance. Ofwat have laid down a number of principles and provisions that they believe all water companies should strive to achieve and we are pleased to report that Portsmouth Water adhere to those expectations.

Purpose, values and culture	
The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.	
Provisions	
The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Following the extensive stakeholder engagement as part of PR19, we undertook work to update the Company Purpose. In parallel to this we also formalized out commitments to the communities that we serve through our Community Partnership. In developing the Company Purpose the business undertook significant activities with both customers and wider stakeholders.
The board makes sure that the company's strategy, values and culture are consistent with its purpose.	The Company's Purpose is developed from and underpinned by the Company's "Vision" and "Values". We explain more about our values under "Our Customers and "Our People" within the Annual Report and Accounts.
The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	The Board assesses behaviours throughout the business in a number of ways including reviewing the results of Company-wide staff surveys and regular monthly management reporting. Where the Board finds misalignment this is addressed directly through the actions of the Executive Directors and senior leadership team and through direct alignment to the company staff assessment and appraisal process.
Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	This is communicated throughout the annual Report and Accounts and in particular under, "Our Company Purpose", "Our Strategy" and "How we measure success".
Standalone regulated company	
The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.	
Provisions	
The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.	The Board has a schedule of Matters Reserved for its decision and delegate more detailed consideration of certain matters to Board Committees, including the Audit Remuneration and Nomination Committees. All these Committees report directly to the Portsmouth Water Board where final decisions are taken.
Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the	Following the extensive stakeholder engagement as part of PR19, we undertook work to update the Company Purpose. In parallel to this we also formalized out commitments to the communities that we serve through our Community Partnership. In developing the Company

regulated company, with final decisions made at the level of the regulated company.

Purpose the business undertook significant activities with both customers and wider stakeholders

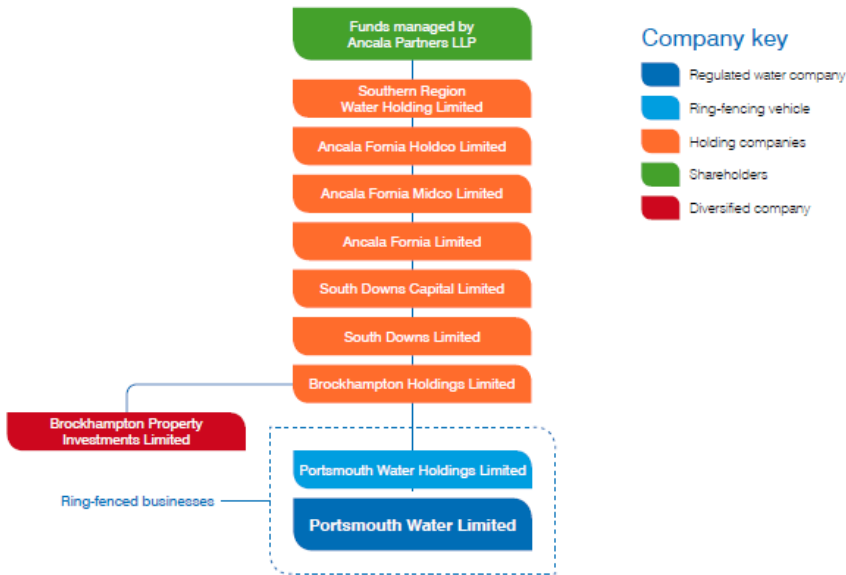
The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

The Board is comfortable that reserved matters are appropriate for a regulated business and focuses on the key regulated activities. The independence of the Board is maintained with the Independent Non-Executives being the largest group and the Investor limited to one Director.

Board leadership and transparency
 The Board of the Appointee’s leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Provisions

An explanation of group structure;



Portsmouth Water Limited is the primary trading company in the group and is included within the regulatory ring-fence as established by the Instrument of Appointment. The immediate parent of Portsmouth Water is Portsmouth Water Holdings, a company established in 2002 to protect the interest of Bond holders by exercising control over distributions.

Ancala Partners LLP (“Ancala”) is a UK based infrastructure fund manager. Its investors are primarily UK corporate and local authority pension plans.

The acquisition of South Downs Capital Limited in March 2018 was implemented by a new company, Ancala Fornia Limited, which is incorporated in the UK. The ultimate parent undertaking is Southern Region Water Holding Limited (SRWHL) which is incorporated in Hong Kong and was set up in 2019. The investors in SRWHL comprise a number of investment vehicles, all focused primarily on UK long-term infrastructure investment and managed by Ancala Partners LLP. Ancala manages approximately £850 million of funds with investment from UK and European pension plans and institutional investors with a long term investment horizon.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the year ended 31 March 2020 will be prepared at the level of Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

<p>An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);</p>	<p>The Company's dividend policy was carefully reviewed following acquisition of the Group and the new policy is consistent with the PR19 Business Plan. This is based upon 5% of the opening equity Regulatory Capital Value. However, in response to the COVID-19 pandemic and related financial uncertainty, no final dividend is proposed for the year ending 31 March 2020.</p>
<p>An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;</p>	<p>The Principle risks and uncertainties faced by the business are covered both under "the issues that affect us" and "Principal Risks and Uncertainties" within the Company's Annual Report and Accounts.</p>
<p>The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast;</p>	<p>This is clearly set out within the Governance Section of the latest Annual Report and Accounts.</p>
<p>An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.</p>	<p>This is reflected under "Remuneration Committee" on pages 56 to 61 of the latest Annual Report and Accounts, including the linkage of remuneration to stretching delivery targets.</p>

Board structure and effectiveness

The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

Provisions

<p>Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.</p>	<p>The Board consider that they have the appropriate balance of skills, expertise, independence and knowledge to enable them to discharge their responsibilities effectively. A thorough review of the skills of each Director on the Board as a whole was carried out during the year.</p> <p>The appointment of Mike Coffin, with a strong audit background, to Chair the Audit Committee and the recent appointments of Christopher Deacon, with his detailed infrastructure experience as we embark upon the Havant Thicket Winter Storage Reservoir project and Angela Smith with her political/stakeholder background, are examples of Board appointments.</p>
<p>Independent non-executive directors are the largest single group on the board.</p>	<p>There are three Independent Non-Executive Directors, two Executive Directors and one Investor Director.</p>
<p>The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.</p>	<p>The Chairman is responsible for leading the Board and ensuring its effectiveness. He facilitates the contribution of the Non-Executive Directors and the relationship between them and the Executive Directors. He is independent of Management and Investors.</p>
<p>There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and</p>	<p>During the year, a formal performance evaluation of the Board, its committees and its Directors was undertaken. Each Director was required to complete a questionnaire, the responses to which were reviewed by the Board as a whole. The Non-Executive Directors also met without the Executives to consider the performance of the Board and its committees, and without the Chairman to appraise his performance. The Executive Directors are subject to a</p>

<p>how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.</p>	<p>formal appraisal of performance which is reviewed by the Chairman. The Chairman also meets with each Non-Executive Director to review individual performance. The evaluation concluded that the Board and its committees operated effectively, and that each Director demonstrated commitment to the role and performed effectively.</p> <p>A full report on the evaluation responses was considered at the March 2020 Board Meeting and reviewed under the following headings: Purpose and Values, Company Performance Assessment (Financial, Operational and Strategic), Board Performance and Independence, Understanding and Engagement with Stakeholders, Governance, Risk and Control and Board Constitution and Size.</p> <p>A further assessment was made by the Chairman in April 2020 where recommendations were made to:</p> <ul style="list-style-type: none"> • Refocus on the Strategy after the Final Determination • Enhance Stakeholder mapping work • Further integrate and Management risk analysis • Introduce a thorough approach to major project reviews <p>The Board will continue to focus on these areas to implement the recommendations.</p> <p>The Board continues to strive for diversity across the Company and is proud of the graduate, apprenticeship and leadership programme within the business to ensure inclusivity is embedded in both our organisation and in our succession planning. Diversity is crucial for the long term success of the business.</p>
<p>There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.</p>	<p>The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. This includes the following:</p> <ul style="list-style-type: none"> • Taking responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise • Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment • Taking account of length of service of Board Members to ensure business continuity is maintained • Ensuring the Company policies on Equal Opportunities, including diversity and inclusion are adhered to across the business. <p>The Committee comprises of all four Independent Non- Executive Directors, the CEO and the Investor Director.</p>
<p>To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.</p>	<p>All new Board appointees, before they commence in the role have a meeting with Ofwat's Chairman.</p>
<p>There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.</p>	<p>This is the case for all Committees and the details are explained in the Annual Report and Accounts.</p>