# Anglian Water Services Limited
# Corporate Governance Code 2020

**Introduction**

The Board of Anglian Water Services Limited (the "Company") is committed to the highest standards of corporate governance. Like its predecessor, the AWS Corporate Governance Code 2020 ("2020 Code") is based on the 2018 UK Corporate Governance Code and incorporates Ofwat's Board leadership, transparency and governance principles which were published in January 2019 (the "Ofwat Principles"). This Code is effective from 1 October 2020 and the first report on compliance against it will be published in the Company's 2021 Annual Integrated Report ("AIR"). Note that the only update from the AWS Corporate Governance Code 2019 is the revision of 2.4 to align with the Company's articles of association and Ofwat's requirements on Board composition.

OO = Ofwat Objective (per Ofwat's Principles) OP = Ofwat Provision (per Ofwat's Principles)

## 1. Board Leadership and Transparency (including Company Purpose, Values and Culture and Stakeholder Engagement)

Objectives

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| A | The Company must be led by an effective and entrepreneurial board which has full responsibility for all aspects of the Company's business and whose role is to promote the long-term sustainable success of the Company. | OO 2 |
| B | The Board must establish the Company's purpose, strategy and values, and satisfy itself that these and its culture reflect the needs of all those it serves. All directors must act with integrity, lead by example and promote the desired culture. | OO 1 |
| C | The Board's leadership and approach to transparency and governance must engender trust in the Company and ensures accountability for their actions. | OO 3 |
| D | The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. | |
| E | The Board should ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern. | |

Provisions

1.1 The Board must develop and promote the Company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service. OP 1.1

1.2 The Board must ensure that the Company's strategy, values and culture are consistent with its purpose OP 1.2

1.3 The Board must monitor and assess the Company's values and culture to satisfy itself that behaviour throughout the business is aligned with the Company's purpose. Where the Board finds misalignment the Board take corrective action. The Company's AIR must: OP 1.3 and 1.4

- explain the Board's activities and any corrective action taken;
- include an annual statement from the Board focusing on how the Company has set its aspirations and performed for all those it serves; and
- include an explanation of the Company's approach to investing in and rewarding its workforce.

1.4 The Board should assess the basis on which the Company generates and preserves value over the long-term. It should describe in the AIR how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the Company's business model and how its governance contributes to the delivery of its strategy.

1.5 The Board should understand the views of the Company's other key stakeholders and describe in the AIR how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in Board discussions and decision-making. The Board should keep engagement mechanisms under review so that they remain effective.

For engagement with the workforce, one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the Board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

1.6 There should be a means for the workforce to raise concerns in confidence and – if they wish – anonymously. The Board should routinely review this and the reports arising from its operation. It should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.

1.7 The Board must be fully focused on the activities of the Company; taking action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensuring that the influence of third parties does not compromise or override independent judgement. OP 2.3

1.8 Where directors have concerns about the operation of the Board or the management of the Company that cannot be resolved, their concerns should be 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 any such concerns.

1.9 The Company must set out any matters that are reserved for shareholders or the Board of Anglian Water Group Limited ("AWG") (where applicable); and explain how these are consistent with the Board having full responsibility for all aspects of the Company's business, including freedom to set, and accountability for, all aspects of the Company's strategy. OP 2.1

1.10 Board committees, including but not limited to audit, remuneration and nomination committees, must report into the Board of the Company, with final decisions made at that level of the Company. OP 2.2

1.11 The Company must publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders: OP 3.1 and 3.2

- an explanation of group structure; and
- an explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees).

## 2 Board Composition and Division of Responsibilities

Objectives

F The chair leads the Board and is responsible for its overall effectiveness in directing the Company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive Board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

G The Board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the Company's business.

H The Board and its committees must be competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs. OO 4

I Non-executive directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

J The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Provisions

2.1 The chair must be independent of management and investors on appointment when assessed against the circumstances set out in Provision 2.3 and demonstrate objective judgement throughout their tenure. The roles of chair and chief executive must not be exercised by the same individual. The chief executive must not become chair of the Company. The chair should not remain in post beyond nine years from the date of their first appointment to the Board. OP 4.3

2.2 There must be an explicit division of responsibilities between running the Board and executive responsibility for running the business. The responsibilities of the chair, chief executive, senior independent director, Board and committees must be clear, set out in writing, agreed by the Board and made publicly available. OP 4.3

2.3 The Board should identify in the AIR each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, independence include, but are not limited to, whether a non-executive director:

- is or has been an employee of the Company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the Company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company;
- has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's performance-related pay scheme, or is a member of the Company's pension scheme;
- has close family ties with any of the Company's advisers, directors or senior employees;

- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies.
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their first appointment.

Where any of the above or other relevant circumstances apply, and the Board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.

2.4 Independent non-executive directors must be the largest single group on the Board.

2.5 The Board and its committees must have an appropriate balance of skills, experience, independence and knowledge of the Company. The Board must identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed. OP 4.1

2.6 There must be a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led. OP 4.7

2.7 The Board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding Board for the chair and serve as an intermediary for the other directors. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.

2.8 Non-executive directors have a prime role in appointing and removing executive directors. Non-executive directors should scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. The chair should hold meetings with the non-executive directors without the executive directors present.

2.9 The AIR must include details of Board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast. OP 3.4

2.10 When making new appointments, the Board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. In respect of Executive Directors, additional external appointments should not be undertaken without prior approval of the Board, with the reasons for permitting significant appointments explained in the AIR. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.

2.11 All directors should have access to the advice of the company secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole Board.

## 3 Succession, Evaluation and Effectiveness

Objectives

K Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

L Annual evaluation of the Board should consider the balance of skills, experience, independence and knowledge of the Board, its diversity, how stakeholder needs are addressed and how effectively members work together to achieve the overarching objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. OP 4.4

Provisions

3.1 The Board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the Board should not chair the committee when it is dealing with the appointment of their successor.

3.2 There must be a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports Objective H. OP 4.5

3.3 Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the AIR alongside a statement about any other connection it has with the Company or individual directors.

3.4 To ensure there is a clear understanding of the responsibilities attached to being a non-executive in the sector, the Company must arrange for the proposed, final candidate for new non-executive appointments to the Company to meet Ofwat ahead of a formal appointment being made. OP 4.6

3.5 The Chair should not remain in post beyond nine years from the date of their first appointment to the Board. To facilitate effective succession planning and the development of a diverse Board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.

3.6 There must be a formal and rigorous annual evaluation of the performance of the Board, its committees, the chair and individual directors. The chair should consider having an externally facilitated Board evaluation at least every three years. Where used, the external evaluator should be identified in the AIR and a statement made about any other connection it has with the Company or individual directors. The approach to the annual evaluation must be reported in the AIR and any weaknesses are acted on and explained. OP 4.4

3.7 The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board. Each director should engage with the process and take appropriate action when development needs have been identified. The results of the annual evaluation should be reported in the AIR and any weakness explained.

3.8 The AIR should describe the work of the nomination committee, including:

- the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
- how the Board evaluation has been conducted, the nature and extent of an external evaluator's contact with the Board and individual directors, the outcomes and actions taken, and how it has or will influence Board composition;
- the policy on diversity and inclusion, its objectives and linkage to Company strategy, how it has been implemented and progress on achieving the objectives; and
- the gender balance of those in the senior management and their direct reports.

## 4 Audit, Risk and Internal Control

Objectives

M The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

O The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.

Provisions

4.1 The Board should establish an audit committee of independent non-executive directors, with a minimum membership of three. The chair of the Board should not be a member. The Board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the Company operates.

4.2 The main roles and responsibilities of the audit committee should include:

- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- providing advice (where requested by the Board) on whether the AIR, taken as a whole, is fair, balanced and understandable, and provides the information necessary for stakeholders to assess the Company's position and performance, business model and strategy;
- reviewing the Company's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate Board risk committee composed of independent non-executive directors, or by the Board itself;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- in conjunction with the AWG Audit Committee, conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity;

- reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required; and
- reporting to the Board on how it has discharged its responsibilities.

4.3 The AIR should describe the work of the audit committee, including:

- the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
- in the case of a Board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);
- where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and
- an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.

4.4 The directors should explain in the AIR their responsibility for preparing the AIR, and state that they consider the AIR, taken as a whole, is fair, balanced and understandable, and provides the information necessary for stakeholders to assess the Company's position, performance, business model and strategy.

4.5 The Board should carry out a robust assessment of the Company's emerging and principal risks. OP 3.3
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed must be published in the AIR in a form and level of detail that is accessible and clear for customers and stakeholders.

4.6 The Board should monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the AIR. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

4.7 In annual and half-yearly financial statements, the Board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

4.8 Taking account of the Company's current position and principal risks, the Board should explain in the AIR how it has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate. The Board should state whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

## 5 Remuneration

Objectives

P Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to the Company's purpose and values, and be clearly linked to the successful delivery of the Company's long-term strategy.

Q A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

R Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances.

Provisions

5.1 The Board should establish a remuneration committee of non-executive directors, with a minimum membership of three. A majority of the remuneration committee members shall be independent non-executive directors. In addition, the chair of the Board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the committee, the appointee should have served on a remuneration committee for at least 12 months.

5.2 The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management. It should review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

5.3 The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the Board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.

5.4 Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the AIR alongside a statement about any other connection it has with the Company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties and when receiving views from executive directors and senior management.

5.5 Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the Company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.

5.6 In respect of new Executive Director appointments, only basic salary should be pensionable. The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements.

5.7 Notice or contract periods should be one year or less. If it is necessary to offer longer periods to new directors recruited from outside the Company, such periods should reduce to one year or less after the initial period. The remuneration committee should ensure compensation commitments in directors' terms of appointment do not reward poor performance. They should be robust in reducing compensation to reflect departing directors' obligations to mitigate loss.

5.8 When determining executive director remuneration policy and practices, the remuneration committee should address the following:

- clarity – remuneration arrangements should be transparent and promote effective engagement with key stakeholders and the workforce;
- simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand;
- risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
- predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy;
- proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance; and
- alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.

5.9 There should be a description of the work of the remuneration committee in the AIR in a form and level of detail that is accessible and clear for customers and stakeholders, information should include: OP 3.5

- 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 Company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the Company level;
- reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
- a description, with examples, of how the remuneration committee has addressed the factors in provision 5.8;
- whether the remuneration policy operated as intended in terms of Company performance and quantum, and, if not, what changes are necessary;
- what engagement with the workforce has taken place to explain how executive remuneration aligns with wider Company pay policy; and
- to what extent discretion has been applied to remuneration outcomes and the reasons why.