



Sir Adrian Montague, CBE
Chairman

**Anglian Water
Services Limited**
Anglian House
Ambury Road
Huntingdon
Cambs PE29 3NZ

Tel 01480 323000
Fax 01480 323115
www.anglianwater.co.uk

Jonson Cox
Chairman
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

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Dear Jonson,

Thank you for giving us the opportunity to comment on your proposed principles of governance.

We recognise the importance of good governance and take our obligations in this regard seriously. We consider that the principles discussed in your document represent a broad definition of good practice in governance and, as you say, the principles largely mirror the principles that would already fall to be complied with at group level by listed companies. In this context, we support the principles, and see no need to comment further on them.

We also welcome Ofwat's explicit embrace of the principle of self-regulation, in giving Boards the lead in establishing how the principles should be applied in their companies. This approach means that the ownership of Board governance rests where it should be and, as you note, is consistent with better regulation principles. Each of the companies, whether listed or unlisted, will be adopting the principles from a different starting point, reflecting their particular ownership and financing structure, and so it is important to reserve to the companies' Boards, as the principles clearly do, the final say in bringing the principles into effect in their particular cases.

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In our case, we have already enhanced our approach to Corporate Governance in the course of 2013. Our 2013 Annual Report and Accounts contains full and transparent disclosure of remuneration at the Regulated Company level and a clear description of our Group structure. Since the publication of the accounts, we have constituted a Remuneration Committee and a Nomination Committee at Anglian Water Services, and we have recently announced the appointment of a fourth independent non-executive director. We intend to start the process of selecting a fifth such director before the end of 2013 and, when a candidate has been appointed, the independent non-executive directors will form the largest group on the Board of the Regulated Company.

As you acknowledge in the paper, each company will take a proportionate approach to the way in which it meets the principles and for some companies (including Anglian) there will be structural issues that will mean it will take some time to adopt the principles fully. Nonetheless, we expect to have in place, by 31st December, a code that shows how we currently apply the principles and our planned timeframe for further application of the principles. We would welcome the opportunity to engage in a constructive dialogue with Ofwat regarding its expectations in this regard.

Yours sincerely
John