

Our Ref: GM/JS/gkw
Your Ref:



28 October 2013

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Email: gillian.white@southeastwater.co.uk

Jonson Cox
Chairman
OFWAT
Centre City Tower
7 Hill Street
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Dear Jonson

Board Leadership, Transparency and Governance

Thank you for your letter dated 19 September enclosing Ofwat's proposed principles concerning board leadership, transparency and governance.

We have reviewed your proposal and believe we are already compliant with the majority of the principles listed.

The board of South East Water is fully committed to the highest standards of governance and is fully cognisant of its duties under statute, under the instrument of appointment and under the Corporate Governance Code (the Code). All decisions of South East Water are taken at that Company's board where shareholder appointed directors already sit alongside the executive and independent non-executives. All of our directors are rigorous in the pursuit of appropriate balance between the interests of customers and other stakeholders and decisions are reached following robust engagement and agreement, rather than by voting.

In our annual financial statements we include a full Corporate Governance Statement, setting out transparently, principle by principle, how we comply with the Code and detailing carefully those areas where we comply with the principles in a different way to that envisaged by the Code's provisions. We are supportive of the "Comply or Explain" feature of the Code which we believe constitutes best practice, and gives companies fuller ownership of governance issues and allows boards to craft governance arrangements that best fit the circumstances of individual companies. We believe retaining such a "Comply or Explain" underpin is critical to the success of a set of corporate governance principles for the sector.

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South East Water Ltd
Registered in England No. 2679874
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ISO 9001 Certified
ISO 14001 Certified
OHSAS 18001 Certified
South East Water is an Investor in People

We note your views on the composition of the board and in particular that the group of independent non-executive directors, including an independent chairman, should be the largest single group on the board compared to both the executive directors and shareholder-appointed non-executives. South East Water is not currently compliant with this requirement. We note this goes somewhat further than the Code as it applies to FTSE350 companies. In particular the board has consistently included five executive directors, a feature which has been valued and supported by both groups of non-executive directors. Taking steps to transition the South East Water board towards a composition that reflects your proposed target is difficult during a price review process when the Board's leadership and ownership of the business plan is so critical. We would therefore not anticipate taking any such steps before the price review process is concluded.

We note your comments concerning the use of alternates. South East Water does not currently have any alternate directors appointed and they do not feature in the usual way we have typically fulfilled our governance arrangements. However, we do believe the use of appropriate, knowledgeable alternates is helpful from time to time and do not believe their use should be proscribed.

We acknowledge Ofwat's intentions with the proposed code and hope you find these comments valuable. We can confirm we intend to comply with the proposed principles, subject to the timing constraints noted above. My board and I would be pleased to discuss any of these points with you

Yours sincerely



Gordon Maxwell
Chairman