

31 October 2013

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

Dear Jonson

**Board leadership, governance and transparency**

Thank you for your letter dated 19 September 2013, and the accompanying principles that you propose should apply in respect of Board leadership, transparency and governance (the "Principles").

I would like to commend your pursuit of the highest standards of governance for the water sector. We strongly believe that Northumbrian Water Limited ("NWL") has an excellent and proven track record in relation to governance, but we appreciate this opportunity to further reinforce standards. We share your preference for appropriate self-regulation.

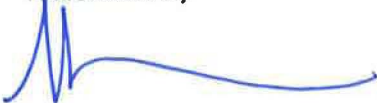
In addition, we support your recognition that governance principles may apply differently for single-investor owned companies than for other ownership models, such as in the appointment of the chairman. In anticipation of this, NWL has appointed a Senior Independent Non-Executive Director ("SINED"), and included a report from him in our most recent regulatory accounts, providing an independent view of board leadership, transparency and governance (the "SINED Report").

We also believe that there are other practices suitable for some ownership models which may not be best practice for single-investor owned companies, such as your proposal that the number of independent non-executive directors be greater than that of either non-executive directors that are not independent, or executive directors. In our case, your proposals would imply at least seven independent directors, which would make the Board unwieldy, and increase costs for customers.

Furthermore, the SINED Report concludes "*I am satisfied that the balance of experience and expertise on the Board of NWL and its Committees ensures that the interests of all the Company's stakeholders, and especially customers, are protected and that the Company's governance is both sound and appropriate*". Given that both I and our SINED agree that the current board composition is appropriate and working well, I question in what way NWL and its customers would benefit from applying a formulaic approach which increases the size of the board unnecessarily.

I confirm we will put in place a code of practice that reflects the governance requirements of a company owned by a single shareholder by 31 December 2013. However we will be in contact with you in advance of that to discuss our draft code.

Yours sincerely



**Andrew J Hunter**  
Chairman