



## Engaging with our shareholders

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Affinity Water Limited

March 2014



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## Engaging with our shareholders

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1. At Affinity Water, we are committed to being accountable to our customers and our communities. We aim to maintain legitimacy with them by being open and transparent about our governance and the involvement of our shareholders in our business. This document sets out for our customers, investors, regulators and other stakeholders the matters we will consult our shareholders about to ensure that their interests as shareholders are respected, while maintaining the role of our Board to lead and govern the business. It should be read alongside our Governance Code which explains how we will govern and operate our business to high standards of governance and transparency.
  
2. Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business. Best practice in corporate governance continues to evolve. In recent years, greater emphasis has been placed on shareholder involvement in governance and decision-making across a range of matters. For example:
  - The *UK Corporate Governance Code* indicates that shareholders should be engaged by the Board about strategy and governance matters.
  - The *UK Stewardship Code* provides that shareholders should monitor and engage with companies on matters such as strategy, performance, risk, capital structure, corporate governance, culture and remuneration.
  - The *Hermes Responsible Ownership Principles* recommend that shareholders are involved in decision-making relating to:
    - acquisitions and disposals
    - governance structures
    - amendments to constitutional documents
    - authorisation of additional shares
    - closure of businesses
    - nomination, election and removal of members of the board and external auditors
    - remuneration policies for directors and senior executives
  - Improving Corporate Governance and Shareholder Engagement acknowledges the importance of engagement between the boards of companies and shareholders about matters such as succession planning, board composition, remuneration, strategy, accounting, audit and capital management.
  - UN Principles of Responsible Investment promote shareholders' active engagement in environmental, social and corporate governance matters relating to the companies in which they invest.
  
3. Our shareholders discharge their responsibilities as shareholders through their representation on our Board and through their participation in and approval of decisions relating to the matters set out in the table below.

## Matters reserved for shareholder approval

<b>1.</b>	<b>Corporate affairs and capital</b>
1.1	The listing of any equity or debt securities.
1.2	The creation or allotment of any equity securities
1.3	Amending rights attaching to shares in the company
1.4	Re-organisation of the share or loan capital of the Company
1.5	Repurchase or redemption by the Company of its equity securities
1.6	Altering the Articles of Association
<b>2</b>	<b>Acquisitions, disposals and joint ventures</b>
2.1	Acquisition or disposal of a business, undertaking or assets, or of share capital, loan capital or other securities where the aggregate fair market value exceeds £25m (other than from or to another group company).
2.2	Entry into a joint venture arrangement or cost or profit sharing arrangement exceeding £25m (other than with another group company).
<b>3.</b>	<b>Financial matters</b>
3.1	The creation, assumption, guarantee, refinancing or prepayment of any indebtedness or derivatives liabilities, or the granting of an encumbrance over the Company which materially increases indebtedness.
3.2	Refinancing of a material portion of the Company's debt
3.3	Provision of a material guarantee, indemnity or other surety (other than in the course of normal trading).
3.4	Action that would result in the Company not maintaining an investment grade rating of BBB/BBB+
3.5	Making any loan exceeding £1 million (except deposits with financial institutions) or granting material credit (except trade credit in the ordinary course of business).
<b>4</b>	<b>Directors, remuneration policy and board committees</b>
4.1	The appointment or dismissal/removal of directors and key executives
4.2	Approval of the Company's remuneration policy
4.3	Establishment of and terms of reference for Board committees other than remuneration, nomination and audit committees

<b>5.</b>	<b>Regulatory matters</b>
5.1	Matters relating to the Company's Instrument of Appointment which bear directly or indirectly on shareholders, including those matters set out in Condition P and matters which might require the Company to raise additional equity finance.
5.2	Approval of the Company's regulatory business plan
5.3	Accepting or rejecting the determination of an Ofwat price control
5.4	Taking any step which might lead to the termination of the Company's Instrument of Appointment
<b>6.</b>	<b>Business plans and material commitments</b>
6.1	Approval of business plans and any subsequent material deviation from them.
6.2	Entry into material contractual or other similar commitments outside the ordinary course of business or otherwise than on an arm's length basis.
6.3	Entry into a contractual or other similar commitment with another group company or shareholder
6.4	Material property transactions.
<b>7.</b>	<b>Auditors, accounting and tax matters</b>
7.1	The appointment, reappointment or removal of the Company's Auditors.
7.2	Any change to the accounting reference date or material changes to accounting or tax policies, except as required by law or to meet a relevant financial reporting standard.
7.3	Making or giving any material claim, surrender, election or consent for tax purposes or taking any action which would change the tax residency of the Company or tax structure of the group.
<b>8.</b>	<b>Change of name, new business lines and subsidiaries</b>
8.1	Changing the name of the Company
8.2	Commencing a new business line unrelated to the Company's appointment as a water undertaker
8.3	Incorporating a subsidiary company.
<b>9.</b>	<b>Reputation</b>
9.1	Matters relating to litigation, health and safety and the environment likely to have a material adverse reputational impact on the reputation of the Company or its shareholders.
<b>10.</b>	<b>Insolvency</b>
10.1	Approving the winding up of the Company or commencing special administration or other insolvency process, other than as required in order to avoid the Company or its directors breaching applicable insolvency law.

**Approved by the Board of Affinity Water Limited**