



## Governance Code

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Affinity Water Limited

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## GOVERNANCE CODE

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### A INTRODUCTION

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. This Governance Code therefore sets out for our customers, investors, regulators and other stakeholders how we will govern and operate our business to high standards of governance and transparency.
2. We support the principles of good corporate governance set out in the UK Corporate Governance Code and the UK Stewardship Code, which have been developed to promote good governance for companies whose equity shares are listed. Our business is owned by private investors and we must therefore apply the principles of the UK Corporate Governance Code in this context. Consequently, we must have regard to the Guidelines for Disclosure and Transparency in Private Equity Reporting and the work established to monitor conformity with the Guidelines and to keep them under review.
3. We are also mindful that best practice in corporate governance continues to evolve, with greater emphasis in recent years being placed on shareholders holding the Board to account for the fulfilment of its governance responsibilities - alongside monitoring and engaging with Boards on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.
4. Corporate Governance codes adopted throughout the world are founded on the principle of “comply or explain”. They recognise that departure from specific provisions may be justified, where good governance can be achieved by other means, provided reasons for the departure are clearly explained. As a regulated business whose equity shares are not listed, it is incumbent on us to explain and be transparent about any areas where we depart from the provisions of the UK Corporate Governance Code and how we achieve good governance by other means.
5. This Governance Code is founded on the obligations in our licence conditions with respect to the governance and ring-fencing of our regulated business and the principles set out in Ofwat’s paper: *Board leadership, transparency and governance – principles* published in January 2014. We will fully meet those principles. We are further committed to maintaining excellent governance arrangements through time and that any departures from appropriate codes (whether permanent or temporary) will be by exception, discussed with Ofwat and explained to customers.

### B. BOARD LEADERSHIP

1. Our Board is collectively responsible for the long-term success of the Company. It sets our strategic aims, ensures that the necessary financial and human resources are in place to meet our objectives and reviews management performance. It sets our values and standards and ensures that our obligations to shareholders and others are understood and met.

2. Our Board is led by a chairman independent of shareholders and management, Our Chairman is responsible for leading the Board and ensuring its effectiveness on all aspects of its role. This includes regulatory interactions concerning governance matters that would, for a listed company, be discharged by a senior independent non-executive director.
3. Our Board has approved the division of responsibilities between our Chairman for running the Board and our Chief Executive for running the business.

### **C. BOARD BALANCE**

1. We will ensure that our Board and its committees have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. Our non-executive directors, will constructively challenge and help develop the strategy of our business.
2. The composition of our Board is such that our directors, in accordance with their duties, act independently of our shareholders. We will maintain a minimum of three independent non-executive directors on our Board who, collectively, have knowledge of customer issues and the areas our business supplies, together with a non-executive chairman.
3. We value the contribution that all our non-executive directors bring to the governance of the Company, and believe that the balance of skills, experience, independence and knowledge they bring ensures strong leadership and governance. We are committed to maintaining significant independent representation on our Board and its Committees.
4. Our independent non-executive directors together with our Chairman, are the largest single group on our Board. Two executive directors and three non-executive directors that our Board does not consider independent also sit on our Board. We believe this composition is appropriate for balancing the needs of customers, the environment and our shareholders, having taken into account the UK Corporate Governance Code, Ofwat's principles and the privately-owned nature of our business.
5. The composition of our Board is such that no single director or group of directors can dominate the Board's decision making. No individual investor has a majority of voting rights and none of the directors appointed by investors is individually able to veto Board decisions. Further, there is no arrangement between investors as to how to vote on particular matters; directors appointed by an investor act independently of those appointed by the other investors.
6. We will identify in our annual Corporate Governance Report the directors our Board considers to be independent. The Board's reasons for determining a director as independent will be explained, should there be any circumstances which may be perceived to affect their independence, such as the factors set out in the UK Corporate Governance Code.
7. Our shareholders have an important role to play and a direct interest in the strong and effective governance of our business. The number of non-executive directors appointed

to our Board by our shareholders will not exceed the number of independent non-executive directors (including our Chairman).

8. We will inform Ofwat without delay when a new director is appointed, the resignation or removal of a director takes effect, or when any important change in the functions or executive responsibilities of a director occurs.

## **D BOARD COMMITTEES**

1. Our Board has established (and approved terms of reference for) an Audit Committee, Remuneration Committee and Nomination Committee. These committees are solely accountable to our Board.
2. We will report on membership and attendance at meetings in our annual Corporate Governance Report. For each committee, members will collectively have the requisite knowledge and experience to provide appropriate challenge and contribution as required by the terms of reference.
3. Our Audit Committee will be chaired by an independent non-executive director with relevant and recent financial experience. Members of the Audit Committee who are independent are the majority group.
4. Independent members of our Remuneration Committee and Nomination Committee will also be in the majority. The Remuneration Committee is chaired by an independent non-executive director and the Nomination Committee by our Chairman.

## **E BOARD EFFECTIVENESS**

1. Our Nomination Committee will keep under review the skills and balance of our Board to ensure the right skills and experience best able to balance the needs of our business, customers, shareholders, the environment and other stakeholders. In undertaking this review our Nomination Committee will have regard to the Financial Reporting Council Guidance on board effectiveness.
2. Our Nomination Committee is responsible for recommending new appointments to the Board under the terms of reference approved by the Board. The terms of reference provide a formal, rigorous and transparent procedure for the appointment of all new directors to the Board
3. Our Board will undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors so it can act on any improvements it identifies. We will report on how performance was evaluated in our Annual Report.
4. All directors are expected to attend and fully participate in each Board meeting. Where a director appoints an alternate, the Board expects both the appointing director and their alternate, wherever practicable, to attend each Board meeting. This will ensure there is no adverse impact on the continuity and efficacy of the Board should, in exceptional circumstances, the appointing director not be able to be present, participate and vote.

## **F. FOCUSING ON OUR REGULATED BUSINESS**

1. We will operate our regulated business as if it were a public limited company with an equity listing on the London Stock Exchange.
2. Our Board will maintain full control of the management and strategy of the business. We will publish on our website any matters our Board has reserved for shareholder approval.
3. Our Directors will:
  - disclose, to each other, the Company and Ofwat any conflicts they may have between their duties as directors of the Company and other duties;
  - not vote on any contract or arrangement or any other proposal in which they have an interest by virtue of other directorships. This is reflected in our Articles of Association;
  - have regard exclusively to the interests of the Company as a water undertaker should there be potential conflict between those interests and the interests of other group companies.
4. We will adopt and maintain a dividend policy for our regulated business which complies with the following principles:
  - that dividends declared or paid will not impair our ability to finance our regulated business; and
  - under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk.
5. We will operate our regulated business so that sufficient rights and assets (other than financial resources) would be available to a special administrator to manage the affairs, business and property of the regulated business, should it enter special administration.

## **G. OUR RELATIONSHIP WITH OUR SHAREHOLDERS**

1. We will maintain and publish on our website a schedule of matters that our Board has reserved for the approval of our shareholders.
2. We will procure and maintain enforceable undertakings from our UK holding company and ultimate controller(s) that they and their subsidiaries will:
  - provide us all information necessary for our regulated business to meet its legal and regulatory obligations as a water undertaker; and
  - refrain from any action which would cause us to breach any of our legal or regulatory obligations as a water undertaker
3. We will also procure and maintain enforceable undertakings from them that they will ensure the appointment to our Board at all times of not less than three independent non-executive directors of standing with relevant experience and who collectively have

connections with and knowledge of the areas we supply and an understanding of the interests of our customers and how these can be respected and protected.

## **H. TRANSPARENCY**

1. Our annual Corporate Governance Report will meet the requirements of the Disclosure and Transparency Rules for listed companies.
2. We will report annually on the remuneration of our directors in our Remuneration Report taking account of the requirements for companies whose equity shares are listed.
3. We will publish in our Remuneration Report details of any remuneration paid or due to directors under arrangements linking their remuneration to the standards of performance achieved by our regulated business.
4. We will set out clearly in our Annual Report and publish the structure of the group of companies within which the Company sits.
5. We will publish on our website this Governance Code and the terms of reference for our Board and its committees.

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