

**By email and mail**

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

29 October 2013

Dear Jonson

**Board leadership, transparency and governance – principles**

Thank you for your letter dated 19 September 2013, which the Board of Bristol Water considered in detail at their last meeting on 3rd October.

You will recall when we met on 29th May this year that I said that I appreciated the increased focus that Ofwat were giving to Corporate Governance matters for the Regulated water companies. I explained how our Board believed that it was right to employ the highest standards for the benefit of our customers and stakeholders, and went on to outline how the Board was already moving to increase compliance ahead of any potential licence modifications by Ofwat.

Bristol Water continues to operate to the standard of corporate governance provided for in our Licence, namely complying with the Corporate Governance Code (the "Code"). As you will no doubt recall the regulated business is still a listed company (albeit with debt rather than equity in issue) and our latest annual report was compiled as if we were an equity listed company. I hope you will agree that this Annual Report was in an infinitely more readable format.

In terms of Board representation, we note that for smaller companies, such as Bristol Water, the Code's provisions only require the Board to have as a minimum two independent directors. As such we are fully compliant with the Code in respect of the number of independent directors on the Board.

Bristol Water is not untypical of the Water industry in that it is currently privately owned, with three major shareholders, each of whom take a positive and constructive interest in the way in which the Company delivers a high quality and efficient service to our customers. Attendance by shareholders at Board meetings is regular and at a senior level, which gives rise to a high degree of professionalism and Executive challenge. This is to the ultimate benefit of our customers and stakeholders.

**Bristol Water plc**

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We believe that the current structure of the Board is well balanced. It is led by an independent, non-executive Chairman, who is supported by three independent NEDs. The Executive are represented by three Directors, the CEO, CFO and the Regulatory Director. Given our three shareholders, there are a further six Shareholder appointed NEDs, three for Capstone, two for Agbar and one for Itochu. This is the only area of your principles document that would not fit with the current shareholding structure of Bristol Water. Our Board has also expressed some concern at how this particular principle and the role of the independent directors are perceived, and I would like to explore these points further with you if possible.

We believe that we very much operate within the spirit of the principles outlined in your letter, as we have striven to comply with the Code as I believe is clear from my earlier letter from July. The proposals in the latest consultation are matters with which we believe we comply since they are in line with the Code.

I appreciate that you will be very busy at the moment while you await the arrival of your new Chief Executive, but if you have time over the next few weeks to meet up in London, I would like to talk through our approach in the context of your principles so ensure that we continue to take the right steps forward.

If you are happy to meet up I will ask my PA, Alys Davies to make the necessary arrangements with your office.

Warm regards.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Keith Ludeman', with a stylized flourish at the end.

Keith Ludeman  
Chairman, Bristol Water