

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

Dear Jonson,

Response by the shareholders of Kelda Holdings Limited (“Kelda”), the parent company of Yorkshire Water Services Limited (“Yorkshire Water”), to Ofwat’s consultation on Board Leadership, Transparency and Governance, Principles issued in September 2013 (respectively the “Consultation” and the “Draft Principles”)

We are writing to you as the four shareholder investors that collectively own Kelda, the parent company of Yorkshire Water.

The Yorkshire Water board has responded separately to the Consultation, committing to produce a corporate governance code within the timetable required by Ofwat, based on Ofwat’s Draft Principles. We support the response by the Yorkshire Water board in all respects, although please note that we do not sit on the Yorkshire Water board, which acts independently in this, as in all matters. We are aware of the constructive dialogue already under way between Ofwat and the Yorkshire Water board from earlier in the year, following which a number of changes have already been made to address Ofwat’s suggestions. We know that the Yorkshire Water board is open to continuing that dialogue with a view to further aligning Yorkshire Water’s governance arrangements with Ofwat’s vision. We continue to support this initiative.

As long term investors in infrastructure, we fully support all established principles of UK corporate governance, including the core principle of active shareholder engagement and good stewardship. We believe this to be critical to the long term success of all our investments for all stakeholders.

We are mindful of Yorkshire Water’s role in providing an essential public service. We share Ofwat’s view that transparency is important to maintaining public trust and we fully support the principle of enhanced transparency for the industry. Yorkshire Water’s 2013 annual report includes significant additional disclosures, including in relation to the company’s corporate structure, management remuneration and tax position.

We note that a cornerstone of the UK Corporate Governance Code (the “Code”) is the “comply or explain” principle, recognising that a “one size fits all” approach may not always be appropriate, for example in an industry that includes listed companies with a large number of small minority shareholders and also private companies such as Yorkshire Water with a small group of long term, actively engaged shareholder investors. In this context, we were encouraged to see that Ofwat’s recent Information Notice acknowledged the “comply or explain” principle explicitly. We agree with Ofwat’s observation that “comply-or-explain is not a blanket opportunity for companies to disregard the UK Code’s provisions” and we would expect any variations, should any be deemed necessary, to be by exception and to be carefully justified and explained.

We further note that corporate governance is fundamentally concerned with managing the inherent agency issue between a company's management and its owners and that, consequently, recent trends in corporate governance have been towards greater shareholder engagement. In striving for best practice, we therefore believe that any governance model should preserve the role of shareholders as supported by the Code.

We welcome Ofwat's self-regulatory approach to governance: Yorkshire Water will produce a governance code within the timetable stipulated by Ofwat. We understand that Ofwat also intends to issue draft principles for holding companies. We would encourage Ofwat to issue those as soon as possible so that companies may take a holistic approach to their consideration of governance matters.

Yours sincerely,

Citi Infrastructure Investors
RREEF Pan European Infrastructure Fund LP
GIC Special Investments Pte Ltd
Infracapital Partners