



31 October 2013

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Dear Jonson,

### **BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE - PRINCIPLES**

Thank you for your letter dated 19 September 2013 and the accompanying paper regarding Board leadership, transparency and governance principles.

Having had extensive discussions with my Board and Shareholders, I wanted to assure you that Thames Water remains committed to the highest standards of corporate governance. We have already acted to strengthen our governance arrangements and we are well advanced in respect of reporting on a listed company basis. For clarity, I have summarised below the positive steps that have already been made in respect of transparency and governance:

**Reporting** - Thames Water has pro-actively enhanced its disclosure in recent years and now reports, essentially, on the same basis as a UK listed company. Therefore, we already make comprehensive disclosure against such things as directors' remuneration, the workings of our Board and its Committees and director attendance. Our reporting also covers compliance with the UK Corporate Governance Code (the "Code"). Whilst there is more to do in this regard, we have moved significantly towards meeting the Code principles.

**Board arrangements** - Earlier this year, we strengthened our governance in a number of ways. Firstly, the Chairman's position is now independent and the nomination process to select future Chairs of the Company has been changed to involve all three iNEDs on a committee where they are to be in the majority. The Board has also appointed Michael Pavia, one of our iNEDs, as its Senior Independent Director. Following our latest Board Effectiveness Review, we are now discouraging the attendance of non-standing Alternates at meetings of our Board.

In light of the work undertaken by Ofwat at the time of Thames Water's acquisition by the Kemble consortium, you will be familiar with the composition of our Board and Shareholders. Thames Water operates with a unitary board including a CEO, CFO, three independent directors and an independent Chair. There is an explicit division of responsibilities between the Chair and the CEO. Our Board Committees operate at the regulated company level.

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On the issue of the relative proportion of investor and independent representation, Thames Water faces a greater challenge. Given the Company's size, and relative to other privately-owned companies in the sector, a large number of investors were required to make significant equity commitments on acquisition. This has led to the number of investor-appointed Directors on the Board today. Along with our other Directors, these Board members hold a common interest in delivering the best long term outcomes for the Company and its customers. Whilst some of those representing investors are employees of those organisations, several are "Professional Directors" who are not employed by any Shareholder.

The Board considers that it includes individuals with diverse and relevant skill sets and that it operates in a way that appropriately recognises its responsibilities to customers and other stakeholders. In this regard, I note that all Directors have the same legal duties and, as such, are required to balance a variety of interests, including those of customers. In my time as Chairman since the end of 2006, we have only sought Shareholder approval for a small number of mainly constitutional matters and there have not been any situations where independent directors have been out-voted.

Your paper acknowledged that the implementation of revised governance standards by companies could require significant time and effort to introduce. In our case, this is also something that would require the unanimous support of Shareholders – many of whom were attracted to the UK water sector in part by the opportunity to participate directly in the governance of the Company. Moreover, the structural changes that we are considering would necessitate major amendments to constitutional documents. This challenge would be significantly ameliorated if "Professional Directors" were counted as independent directors. Such Professional Directors would be those who are paid for their services only by the Company and who the Board (in line with the Code) would determine to be independent in their approach.

On process, it would be appreciated if Ofwat would publish its final Principles before we and others are asked to put in place governance codes. Given the Shareholder approvals required, we would like to be clear on where your consultation, and the Principles themselves, will settle. This would allow us to be certain that we are putting appropriate and complete proposals to our Shareholders when amending the Company's constitutional documents, including the revised Articles which would give effect to any new structure.

We will continue both to engage with you on these matters and to seek the agreement of our Shareholders for the implementation of a governance code with effect from the beginning of AMP6.

As ever, please let me know if you would like to talk further about any of this.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Peter", with a horizontal line underneath it.

**Sir Peter Mason KBE**  
**Chairman**

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