



Ingrid Olsen
Finance and Networks Division
Ofwat
Centre City Tower
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5 March 2014

Dear Ms Olsen

Board leadership, transparency and governance – holding company principles

Our regulated business, Affinity Water Limited, is committed to being accountable to its customers and communities. It aims to maintain legitimacy with them by being open and transparent about its governance and the involvement of shareholders in its business. Affinity Water Acquisitions (Investments) Limited, its ultimate holding company, shares these aims.

We welcome Ofwat's proposals on leadership, governance and transparency principles for the holding companies of regulated water companies. Since our acquisition of Affinity Water Limited in 2012, we have taken significant steps to enhance the governance and transparency of the business, including my appointment as its independent Chairman. We were pleased to see the progress made recently recognised by the PwC Guidelines Monitoring Group for Improving Transparency and Disclosure, which cited three aspects of Affinity Water Limited's Annual Report for 2012/13 as examples of good practice.

As investors, we have an important role to play and a direct interest in the strong and effective governance and stewardship of Affinity Water Limited. 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.

We welcome Ofwat's recognition that a number of these publications provide good practice guidance for the role of shareholders and affirm our commitment to meeting our responsibilities as investors with respect to governance and transparency.

We fully support and expect to meet the principles Ofwat is proposing for holding companies which, in our view, complement well other leading guidance for shareholders on governance and involvement in decision-making.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Nolan', with a long horizontal flourish extending to the right.

Dr Philip Nolan
Chairman