



Your local supply, on tap

Consulting with our shareholders

Affinity Water Limited

24 June 2020

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1. At the core of Affinity Water's¹ purpose and values is a deep understanding of the fundamental importance of strong board leadership to a company providing an essential public service accountable to our customers, communities, shareholders, and wider stakeholders. Affinity welcomed the additional focus placed on this important area for the water industry in Ofwat's board leadership, transparency and governance guidance published in 2019.
2. The focus of the board's decision making is to enhance Affinity Water's performance in line with the instrument of appointment, and the expectations of our stakeholders. We maintain legitimacy by being at the forefront of best practice and being open and transparent about our governance, part of that is being clear on the involvement of our shareholders in our business.
2. This document sets out for our customers, investors, regulators and other stakeholders the matters we will consult our shareholders about to ensure that their interests as shareholders are respected, while maintaining the role of our Board to lead and govern the business.
3. This document should be read alongside our Governance Code which explains how we will govern and operate our business to high standards of governance and transparency.
4. Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business and our Shareholders have demonstrated their commitment to this thorough the undertakings they have provided pursuant to condition P of the instrument of appointment to support Affinity Water's ongoing compliance with the instrument of appointment including the governance objectives and principles.
5. Affinity Water's shareholders discharge their governance responsibilities as shareholders through their representation on our Board. The Board of Affinity Water receives recommendations from management and makes decisions based on the company's purpose and values and its duty to promote the success of the company in accordance with section 172 of the Companies Act 2006 alongside Affinity's wider obligations.
6. Pursuant to the instrument of appointment the Board of Affinity Water must have full responsibility for all aspects of the regulated business, including the freedom to set, and have accountability for, all aspects of the regulated company's strategy. Furthermore, the directors appointed to the regulated company are fully focused on the activities of that company and take action to identify and manage conflicts of interest, including those resulting from shareholders and ensures that the influence of third parties do not compromise or override the independence and judgement of directors.
7. In a limited number of instances set out in the tables below, the Board holds consultations with shareholders, before the Board makes its decisions or the matter is reserved for confirmatory approval by shareholders prior to a decision by the board. Affinity Water values the particular expertise that can be brought into consideration through the experience and expertise shareholders bring to these decisions which are in a large part similar to the matters Affinity Water's senior financiers have control rights over.
8. Affinity Water remains committed to reviewing the arrangements in line with best practice which continues to develop. Recent changes that Affinity Water has incorporated into its governance

¹ Affinity Water Limited the regulated company appointed by the Secretary of State for the Environment as a water undertaker under the Water Act 1989.

Revised to include Ofwat's board leadership, transparency and governance guidance published in 2019.

arrangements alongside Ofwat's board leadership, transparency and governance guidance include:

- The *UK Corporate Governance Code*;
 - The *UK Stewardship Code*;
 - The *Hermes Responsible Ownership Principles*; and
 - The *ABI's Improving Corporate Governance and Shareholder Engagement*.
9. Affinity Water continually considers the best way to deliver the objectives described above, particularly as expectations from customers and other stakeholders change over time and best practice evolves and develops. Affinity Water will continue to evaluate and report on both its performance against its current arrangements, best practice in the sector and more broadly as well as seek to implement new arrangements that will together ensure Affinity Water leads the market.

Matters reserved for prior shareholder approval

1.	Corporate affairs and capital
1.1	Listing, public offering, issuing or allotting any equity, convertible instrument or debt securities or granting any option or right to acquire or call for the issue of the same
1.2	Amending rights attaching to shares in the Company
1.3	Re-organising the share or loan capital of the Company
1.4	Repurchasing or redeeming by the Company of its equity securities
1.5	Altering the Articles of Association
2	Acquisitions, disposals and joint ventures
2.1	Acquiring or disposing of a business, undertaking, rights or assets, or of share capital, loan capital or other securities, where the aggregate fair market value exceeds £25m (other than from or to another group company)
2.2	Proposing to acquire or invest in, or acquiring or investing in, any other regulated water company
3.	Auditors, accounting and tax matters
3.1	Making material changes to the tax policies or taking any action, which would change the tax residency of the Company or tax structure of the group ²

Matters reserved for shareholder consultation

1.	Corporate affairs and capital
1.1	Authorising any arrangement whereby the directors shall cease to determine: <ul style="list-style-type: none"> the general policy or the scope of the activity and operation of the Company, or all matters involving major or unusual decisions material to the business of the Company, or any other arrangement whereby the control of the management of the Company shall pass from the directors to any third party or body
1.2	Paying up any share capital, debenture or debenture stock of the Company by way of capitalisation or application of any profits or reserves (including share premium account and capital redemption reserve), other than in accordance with the Distribution Policy
2	Acquisitions, disposals and joint ventures

² Affinity Water is part of a wider tax group, the requirements of which need to be considered and co-ordinated with the other members

2.1	Substantially altering the nature of the Company's business, including carrying on of the business at a materially reduced scale or cessation of the business
2.2	Entering into a joint venture arrangement or cost or profit sharing arrangement exceeding £25m (other than with another group company)
3.	Auditors, accounting and tax matters
3.1	Appointing, reappointing or removing the Company's Auditors
3.2	Changing the accounting reference date or any accounting practices and policies, except as recommended by the auditors because of a change in generally accepted accounting practices or policies applicable to companies carrying on businesses of a similar nature to the Company or as required by law
4.	Financial matters
4.1	Creating or giving any Encumbrance in respect of all or any part of the undertaking, property or assets of the Company or accepting any Encumbrance for benefit of the Company, or creating, extending or amending any borrowings, other indebtedness or obligation in the nature of borrowings that materially increases indebtedness (including refinancing a material portion of the Company's debt)
4.2	Entering into, issuing, extending or materially amending any guarantee, indemnity or surety by the Company other than in the ordinary course of business
4.3	Action that would result in the Company not maintaining an investment grade rating of BBB/BBB+
4.4	Making any loan exceeding £1m (except deposits with financial institutions) or granting material credit (except trade credit in the ordinary course of business)
4.5	Proposing any compromise or arrangement within the meaning of section 895 of the 2006 Act or any arrangement pursuant to which the Company is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010
4.6	Entering into any loan other than regarding emergency funding
4.7	Deviating from the Dividend Policy
5	Directors, remuneration policy and board committees
5.1	Appointing, engaging, dismissing or removing the Chairman, Chief Executive Officer, Chief Financial Officer or the independent non-executive directors
5.2	Approving any material change in the terms and conditions of employment of the Chief Executive Officer and the Chief Financial Officer
6.	Regulatory matters
6.1	Approving matters relating to the Company's Instrument of Appointment which bear directly on shareholders, including those matters set out in Condition P
6.2	Approving the Company's final regulatory business plan
6.3	Accepting or rejecting the determination of an Ofwat price control
6.4	Taking any step that might lead to the termination of the Company's Instrument of Appointment

6.5	Material submissions to Ofwat (for example responding to consultations from Ofwat and material submissions relating to a Price Review)
7.	Business plans and material commitments
7.1	Approving Long Term Management Plans and any subsequent material deviation from them
7.2	Approving business plans or budgets, and any subsequent material deviation from them, if there is a material deviation from the Long Term Management Plan in force at the time
7.3	Entering into, extending, materially changing, or surrendering any material contracts or arrangement (other than financing contracts or arrangements) outside the ordinary course of business or otherwise than on an arm's length basis
7.4	Approving entry into, or amendment to, a material related party transaction
7.5	Materially changing the organisation of the Company, including any intra-group re-organisation, or the manner in which the Company's business is carried on
8.	Change of name, new business lines and subsidiaries
8.1	Changing the name of the Company
9.	Reputation
9.1	Approving matters relating to health and safety and the environment likely to have a material adverse reputational impact on the reputation of the Company or its shareholders.
9.2	Initiating, conducting, settling or abandoning any claim, litigation, arbitration or other proceedings, or any admission of liability, where the amount of any claim or the potential liability of Affinity Water is over £1 million or where any such proceedings or admission of liability would likely have a material adverse reputational impact on the reputation of the Company or its shareholders.

Approved by the Board of Affinity Water Limited