

# AffinityWater

## Engaging with our shareholders

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Approved by the Board on 26 September 2023



## CONTENTS

Engaging with our shareholders .....	3
Matters reserved for shareholder approval .....	5

## Engaging with our shareholders<sup>1</sup>

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1. At Affinity Water, we are committed to being accountable to our customers and our communities. We aim to maintain legitimacy with them by being open and transparent about our governance and the involvement of our shareholders in our business. 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. It should be read alongside our Governance Code which explains how we will govern and operate our business to high standards of governance and transparency.
  
2. Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business. 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, Principle D states that  
*“In order for the company to meet its responsibilities to shareholders and stakeholders, **the board should ensure effective engagement with**, and encourage participation from, these parties.”*
  
  - Paragraphs 34 to 39 of the FRC Guidance on Board Effectiveness July 2018 provide further clarity on Principle D in relation to engagement with shareholders:  
*An effective board appreciates **the importance of dialogue with shareholders**, workforce, and other key stakeholders, is proactive in making sure such dialogue takes place and that the feedback is taken into account in the board's decision-making. The board's approach to this provides a useful insight into the company's culture. (paragraph 34).*
  
  - [Relations with shareholders](#)
  
  - *The chair has a key role in fostering constructive relations with major shareholders and in conveying their views to the whole board (paragraph 35); and in representing the company to its key stakeholders and is encouraged to report personally in the annual report about board leadership and effectiveness (paragraph 39).*
  
  - *When called on, the senior independent director should try to meet a sufficient range of major shareholders to develop a balanced understanding of their views. Non-executive directors should attend general and other meetings to understand shareholder concerns (paragraph 35).*
  
  - *All shareholders should be able to discharge their stewardship duties effectively (for example, formally by shareholder meetings and the AGM). So that there is sufficient time to consider the issues, the AGM notice and related papers should be sent at least 20 working days before the AGM (paragraph 36).*
  
  - *Boards may want to consider additional ways to engage with smaller shareholders, for example, group engagement such as shareholder roundtables or webinars (paragraph 37).*

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<sup>1</sup> Reflecting the 2018 UK Corporate Governance Code

- *Chairs of the audit, remuneration and nomination committees should be available to answer questions at the AGM. The chair should encourage them to make a statement on the committee's activities and achievements over the year (covering, for example, details of engagement with shareholders on significant matters (paragraph 38)).*
  - 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 *UN Principles of Responsible Investment* promote shareholders' active engagement in environmental, social, and corporate governance matters relating to the companies in which they invest.
3. Our shareholders discharge their responsibilities as shareholders through their representation on our Board and through their participation in, and approval of, decisions relating to the matters set out in the table below.

## SHAREHOLDER RESERVED MATTERS<sup>2</sup>

SHA <sup>3</sup>	Protection of Corporate and Capital Structure
A1	any alteration to the articles of association of any member of the Affinity Water Group, or any act, matter, or omission in breach of, or contrary to, the provisions of the articles of association of any member of the Affinity Water Group;
B1	any consolidation or re-denomination of any shares into larger nominal amounts, or any sub-division of the share capital into smaller nominal amounts;
C1	other than pursuant the shareholders' agreement relating to Daiwater Investment Limited, the listing, public offering or issue of any convertible instrument or shares (including by way of bonus, rights or otherwise) or the grant of any option or right to acquire or call for the issue of the same, whether by conversion, subscription or otherwise other than on a pro-rata basis;
D1	the redemption or purchase by any member of the Affinity Water Group of any share in such member of the Affinity Water Group or the reduction of its share capital, or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account of such member of the Affinity Water Group, or the passing of any resolution authorising any of the foregoing;
F1	the paying up of any share capital or debenture or debenture stock of any member of the Affinity Water Group by way of capitalisation or application of any profits or reserves (including share premium account and capital redemption reserve), other than pursuant to any Distribution Policy agreed in accordance with the shareholders' agreement relating to Daiwater Investment Limited;
A2	the issue of any shares (including by way of bonus, rights or otherwise) or the grant of any option or right to acquire or call for the issue of the same, whether by conversion, subscription or otherwise on a pro-rata basis, other than pursuant to the shareholders' agreement relating to Daiwater Investment Limited;
L2	any changes to the Agreed Ratio <sup>4</sup> ;

SHA	Group Strategy
E1	any arrangement whereby the directors shall cease to determine the general policy of any member of the Affinity Water Group and the scope of the activity and operation of any member of the Affinity Water Group or cease to determine all matters involving major or unusual decisions material to the business of any member of the Affinity Water Group or otherwise whereby the control of the management of any member of the Affinity Water Group shall pass from the directors thereof to any third party or body;
K1	any substantial alteration in the nature of the Business including carrying on of the Business at a materially reduced scale, or the cessation of the Business;
L1	any material change in the organisation of the Affinity Water Group (including any intra-group re-organisation) or the manner in which the Business is carried on;

<sup>2</sup> Daiwater Investment Limited Amended and Restated Shareholders' Agreement 12 June 2019 ("SHA")

<sup>3</sup> SHA – Suffix 1 means Super Shareholder Approval; Suffix 2 means Special Shareholder Approval. Both require all shareholders to vote for the resolution to pass.

<sup>4</sup> The ratio of amounts paid up on shares to amounts paid up on shareholder loans (currently 100%)

SHA	Insolvency
G1	any proposal for the winding-up or liquidation of any member of the Affinity Water Group;
H1	the proposal of any compromise or arrangement within the meaning of section 895 of the 2006 Act or any arrangement pursuant to which any member of the Affinity Water Group is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010;

SHA	Acquisitions, Disposals and Joint Ventures
J1	any actual or proposed acquisition of or investment in any other regulated water company;
H2	any actual or proposed sale or other disposition of any assets or rights or any actual or proposed acquisition of any assets or rights in excess of £25 million, unless specifically provided in a Business Plan and Budget, except, in any case, current assets used in the ordinary course of business;

SHA	Financial
C2	approval of a Net Asset/RAV ratio which is inconsistent with the Gearing Policy;
I1	the making of any amendments to any Loan Note Instrument;
M1	approval of the entry into, amendment to a Related Party Transaction; and
N1	any deviation from the Distribution Policy.
D2	the creation or giving of any Encumbrance in respect of all or any part of the undertaking, property, or assets of any member of the Affinity Water Group or the acceptance of any Encumbrance for benefit of any member of the Affinity Water Group;
E2	entry into, issuance, extension, or material amendment to any guarantee, indemnity, or surety by Daiwater Investment Limited or any other member of the Affinity Water Group other than in the ordinary course of business;
F2	the creation, extension or amendment of any borrowings or other indebtedness or obligation in the nature of borrowings (including, without limitation, obligations pursuant to any debenture, bond, note, loan stock or other security and obligations pursuant to finance leases) except where specifically provided for in a Business Plan and Budget for the relevant year;
G2	the entry into any Loan Note Instrument, other than pursuant to the shareholders' agreement relating to Daiwater Investment Limited;

SHA	Business Plans and Material Commitments
B2	entry into, extension, 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;
I2	material submissions to Ofwat;
J2	approval of a Long-Term Management Plan and any subsequent material deviation from it or the adoption of a new Long-Term Management Plan;

K2	approval of, or any variation to, a Business Plan and Budget if there is a material deviation from the Long-Term Management Plan in force at the time;
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SHA	Group Reputation
M2	the initiation, conduct, settlement or abandoning of any claim, litigation, arbitration, or other proceedings involving any member of the Affinity Water Group or any admission of liability likely to have a material adverse reputational impact on the reputation of the relevant member of the Affinity Water Group or the Shareholders;
N2	matters relating to health and safety and the environment likely to have a material adverse reputational impact on the reputation of the relevant member of the Affinity Water Group or the Shareholders;

SHA	Directors
O2	the appointment, engagement, dismissal, removal or termination of the chairman, chief executive officer, the chief financial officer, and the independent non-executive directors;
P2	the approval of, the making of any material change in, the terms and conditions of employment of the chief executive officer and the chief financial officer;

SHA	Auditors, accounting, and tax
Q2	the changing of the accounting reference date;
R2	the making of any change to the accounting practices and policies except where such change is recommended by the auditors as a consequence of a change in generally accepted accounting practices or policies applicable to companies carrying on businesses of a similar nature to the Business or as a consequence of a change in law; and
S2	the removal of the auditors, or the appointment as auditors or joint auditors of any member of the Affinity Water Group of any firm except the auditors.

**Approved by the Board of Affinity Water Limited**