

THAMES WATER UTILITIES LIMITED – CORPORATE GOVERNANCE KEY PRINCIPLES

Background

Since the publication of Ofwat's consultation on corporate governance in September 2013, Thames Water has been working to enhance its governance, as necessary, to meet the standards expected by the consultation. The Company has now developed Key Principles in line with Ofwat's final requirements.

Thames Water has a large number of international investors and the significant changes to the Company's constitutional documents, needed to give effect to these Key Principles, require unanimous Shareholder approval.

The Company intends to put proposals to Shareholders later in the year. Subject to the agreement of its Shareholders, Thames Water will implement its revised corporate governance framework (on the basis of the Key Principles) by 1 April 2015.

Thames Water and Corporate Governance

Thames Water delivers an essential service to millions of customers every day. We recognise that we play a key role in the region we serve and strive to be a good neighbour to all whom our operations and activities affect.

The Company and its Shareholders are committed to continuously improving our service and to ensuring that Thames Water is a sustainable business, providing for the long term needs of our customers and other stakeholders.

We understand the importance of high standards of corporate governance and see good governance as going hand in hand with the performance of our functions. Although Thames Water's governance framework has been developed specifically to meet our requirements, it adopts as much of existing best practice as is appropriate. We will have regard to the UK Corporate Governance Code (the "Code") but where inappropriate will follow Ofwat's governance principles¹.

Our Key Principles below, therefore, recognise the complementary standards expected by Ofwat and the Code.

Definitions

"Board" means the Company's board of directors;

"Committees" means committees of the Company's Board;

"Group" means Kemble and its subsidiaries, including the Company;

"Kemble" means Kemble Water Holdings Limited;

"Listed Company" means a company with Premium Listing or equivalent on the London Stock Exchange;

"Shareholders" means the Company's Shareholder and the Shareholders in Kemble;

"Thames Water" and the **"Company"** means Thames Water Utilities Limited;

1. Board leadership, transparency and governance – principles (Ofwat - January 2014)

Key Principles

1. Transparency:

Main principle: We will be transparent and offer clear and straightforward explanations of our structure and affairs.

Ofwat
Principle 1
& 6

Supporting principle (1): Our reporting will follow the requirements of the Disclosure and Transparency Rules (or such other rules as may apply to a Listed Company) to the extent that these can be reasonably be applied to the Company.

Supporting Principle (2): The structure of our Group will appear within the Company's annual report and will be explained in a straightforward way.

2. Conduct and Governance

Main Principle: The Company will, at all times, conduct itself as if it were a separate Listed Company.

Ofwat
Principle: 2

Supporting Principle (1): Although the board of Kemble has no role to play in running the Company's business, certain matters also require the approval of the Kemble board having regard to the interests of our Shareholders. The nature of such approvals (as set out in Appendix 1), and their use, will be disclosed in the Company's annual report.

3. Role of the Board

Main principle: The Board will lead the Company effectively and is collectively responsible for the Company's long-term success. The Board will ensure that it maintains sufficient focus on overseeing the delivery of Thames Water's obligations to customers and other stakeholders.

Ofwat
Principle 2

Supporting Principle (1): The Board will provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be properly assessed and managed.

Supporting Principle (2): The Board will set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance.

Supporting Principle (3): The Board will specify the Company's values and standards and ensure that its obligations to its Shareholders and others are understood and met.

Supporting Principle (4): All directors must act in what they consider to be the best interests of the Company, consistent with their statutory duties.

4. Board Composition

Main principle: The Board will have the appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively.

Ofwat
Principle 3

Supporting Principle (1): Independent directors (who shall include the Chairman) will be the largest single group on the Board.

Supporting Principle (2): Appointments to the Board will be made through a Nominations Committee to be chaired by an independent director.

Supporting Principle (3): The Board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision taking.

Supporting Principle (4): All Board members will allocate sufficient time to the Company to discharge their responsibilities effectively. There will be no routine appointment of alternate directors to the Board.

Supporting Principle (5): The Board will undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors and will report on the evaluation in the Company's Annual Report.

5. The Chairman

Main Principle: The Chairman will be independent of management and Shareholders.

Ofwat Principle: 4

6. Board Committees

Main Principle: The Board will ensure that it maintains (and, where necessary, establishes) appropriate Committees, including but not limited to Audit, Remuneration and Nomination Committees.

Ofwat Principle 5

Supporting Principle (1): All Committees will be chaired by an independent director.

Supporting Principle (2): The Audit, Remuneration and Nomination Committees will have independent directors (including, the Chairman where applicable) in the majority.

APPENDIX 1

PART 1 - PROPOSED LIST OF KEMBLE RESERVED MATTERS

No.	Reserved Matter
1.	Strategy
2.	Structure & Capital
3.	Business Plans (including any remedial measures)
4.	Board Membership
5.	Remuneration
6.	Material Regulatory Decisions