

## **Section C - CODE OF ETHICS**

### **Introduction**

It is a fundamental policy of the Kelda Group to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing.

This Code sets out a summary of what is expected of directors and employees of the Group in dealings with other people in the Group and outside. Appropriate training and guidance on matters covered by this Code shall be provided to directors and employees of the Group.

The Code is split into six sections:

1. Improper Conduct and Conflicts of Interest
2. Disclosure of Malpractice
3. Conduct in the Work Place
4. External Appointments
5. Confidentiality
6. Company Gifts and Benefits

There are **two simple tests which may help:**

1. Is it within the law?
2. How will it look to other people?

If in doubt, a manager should be consulted.

Failure to comply with this Code could lead to disciplinary action being taken.

## **Section 1 – Improper Conduct and Conflicts of Interest**

### **1.1 General**

No director or employee of the Group should place themselves in a position where their actions, personal interest or activities are, or are likely to be, in conflict with the interests of the Group. It must be emphasised that an actual conflict of interest need not be present to constitute a breach of this Code. Activities that create the mere appearance of a conflict of interest must be avoided in order not to reflect negatively on the Group's reputation.

Anything that presents a conflict of interest for a director or employee of a Group company would also present a conflict of interest for a member of the immediate family of the director or employee and, therefore, must also be avoided. For the purpose of this Code, "a member of immediate family" means spouse, child or an individual having the same home as a director or employee.

If an employee is concerned that a potential conflict may occur, a full disclosure should be made to the relevant company secretary (with a copy to the employee's line manager) using the form attached at Appendix A. Written approval from the person specified by the policy of the relevant company or, if no such person is specified, from a director of the relevant company must be obtained before proceeding with the contemplated course of action.

Specific statutory duties apply to directors who have been briefed accordingly.

### **1.2 Business interests**

Unless fully disclosed to and approved by the Chief Executive, no directors or key employees of the Group should have any interest in private or public companies, partnerships or other concerns engaged in a business similar to or competing with the current or prospective business of the Group. For the purposes of this Code, "key employees" means those designated as band 1 or band 2.

This restriction will not normally prevent holdings of up to 3% of the issued capital in a non-competing company which is quoted or traded on the London Stock Exchange, AIM or another recognised investment exchange. Investments of up to 3% of the units of any unit trust or similar fund are also allowed.

Any outside employment, investment or other source of income of the Group's employees must be secondary and subordinate to their position with the Group and must not interfere in any way with the performance of their duties as employees of the Group. Employees must recognise that they may not have any outside interests that are in any way detrimental to the group's best interests.

### **1.3 Business dealings**

It is the policy of the Group to purchase all materials and supplies on the basis of price, quality and service. It is an offence under the Bribery Act 2010 for any individual to pay, offer request or accept a bribe. A company within the Group may

also commit an offence if an individual gives or offers a bribe on behalf of the company with the intention of retaining or obtaining business for the company or gaining a benefit or advantage on behalf of the company.

The Group has a zero tolerance policy against bribery, it will neither pay nor accept any bribe, gratuity or similar payment (such as a facilitation payment) from anyone in connection with its business, including any sales or purchase transaction and will cooperate with the authorities for the investigation of any acts of bribery by persons associated with the Group even if the bribe is allegedly offered, paid or accepted in the Group's interest.

Directors and employees must select customers, suppliers and other persons doing or seeking to do business with the Group and deal with such persons in a completely impartial manner, without favour or preference based upon any considerations other than the best interests of the Group.

Directors and employees are not permitted to borrow from or lend to customers or individuals or concerns with whom the Group does business, including such customers, individuals or concerns from whom the Group buys or to whom the Group sells goods or services. These guidelines do not apply to conventional loans from lending institutions.

Directors and employees may not benefit personally from any purchase by or sale to the group of goods or services. Directors and employees may not derive personal gain from transactions involving the Group, including the sale or lease of real or personal property, unless such transactions and the personal interest involved have been disclosed fully to and approved by the Company Secretary.

#### **1.4 Business gifts, entertainment and other benefits**

Gifts and entertainment provided by any Group Company should be tasteful but of insubstantial value, consistent with the status of the client or customer involved. In no event should gifts, payments or entertainment be given for the purpose of improperly obtaining any contract or other commercial benefit or such as may otherwise appear to be bribes or other improper forms of compensation or payment (see above).

Gifts or benefits of a personal nature should not normally be accepted from any customer of or supplier to the Group or any other person or organisation, which does business with the Group, other than those recognised by the Group as normal business practice, and which are reasonable, proportionate and of insubstantial value. Under no circumstances should cash gifts be accepted.

Gifts of insubstantial value such as promotional material, and commercial business entertainment recognised by the Group as normal business practice, such as one off tickets to sporting or other events, lunches and dinners, may be accepted and need not be registered, provided that it is reasonable in nature, frequency and cost. Consideration should also be given as to timing when assessing the appropriateness of accepting any hospitality, for example if the hospitality provider is involved in a competitive tender process with a Group company.

Other gifts or hospitality should be registered with the relevant company secretary using the form attached at Appendix B.

If an employee is in doubt as to whether the acceptance of any gift, benefit or hospitality could be perceived to give rise to a potential conflict of interest, it should be registered with the relevant company secretary using the form attached at Appendix B.

### **1.5 Misappropriation of business opportunities**

Directors and employees are prohibited from taking direct or indirect advantage of any business opportunity which is received by reason of their relationship with the Group and in which the Group may be interested. This is unless such opportunity has been presented for consideration by the Group, has been rejected and such activity is not otherwise prohibited under this Code. The presentation of the opportunity, its consideration and rejection should all be documented. The basis of allowing any employee to proceed with the relevant opportunity should be the subject of written agreement between the employee and the relevant Group company.

### **1.6 Other**

It is difficult to describe all of the circumstances and conditions that might be considered to involve an improper conflict of interest. It is as important to avoid the appearance of a conflict of interest. However any director or employee who has (or believes that they might have) a personal or financial interest which might conflict with this Code, should immediately make all the facts known to the Company Secretary.

## **Section 2 – Disclosure of Malpractice (“Whistleblowing Policy”)**

### **2.1 General**

The Kelda Group takes a very serious view of any fraudulent or other improper behaviour, bribery, other serious malpractice and general abuse occurring in the workplace. Any employee suspected of such behaviour will be investigated under the relevant company’s disciplinary policies.

In the light of this, any employee who becomes aware of possible malpractice should report it to the relevant Group company. Any employee making such a disclosure in the UK will be protected under the Public Interest Disclosure Act 1998 (and similar principles will apply in any other country, subject to the relevant local law), and will be treated with the utmost confidentiality.

### **2.2 Public Interest Disclosure Act**

In the UK all employees will be protected under the Public Interest Disclosure Act 1998, where they make a “protected disclosure”. These are disclosures of information, which in the reasonable belief of the employee making the disclosure, tends to cover the following employer activities:

- a criminal offence has been, is being, or is likely to be, committed;
- that a person has failed, is failing or is likely to have failed to comply with any legal obligation to which they are subject;
- a miscarriage of justice has occurred, is occurring or is likely to occur;
- that health and safety of an individual has been, is being or is likely to be endangered;
- that the environment has been, is being or is likely to be damaged;
- that information relating to the above and other similarly significant matters are being deliberately concealed.

NB: Similar principles will be applied in any other jurisdiction in which the Group operates.

### **2.3 Reporting procedure**

If any employee believes reasonably and in good faith that malpractice exists in the workplace, then he is to report this immediately to his manager. However, if for various reasons he feels unable to speak to his manager, he should contact the Employee Relations Manager Yorkshire Water Services, Loop HR Manager, KWS HR Manager or the Chief Internal Auditor, who are all managers specially designated for this purpose.

Any such disclosure will be treated in the utmost confidence and will be immediately investigated. Following an investigation, the employee raising the initial concern will

be informed of the outcome of the investigation, and of any proposed actions. If the outcome of any investigation is that the complaint was brought maliciously or as a diversion from the behaviour of the complainant, this will be regarded as a serious disciplinary matter and will be dealt with under the relevant company's policies.

The Group is committed to the rigorous investigation of any allegation of fraud, corruption and bribery within the Group, and where fraud, corruption, bribery or other criminal act is proven, to ensure that wrongdoers are appropriately dealt with. The Group has put in place procedures (including this Code of Ethics), designed to minimise the likelihood of it being a victim of such acts, and a response plan to be followed in the event of such suspected acts being reported. The guidance notes are attached in Appendix C.

## **Section 3 – Conduct in the Work Place**

### **3.1 Personal Behaviour**

Employees should consider the consequences of their actions on others in the work place, and ensure that their behaviour does not get in the way of their own or their colleagues' ability to perform their jobs effectively.

All employees are reminded of the necessity of maintaining unimpeachable standards of integrity in all their business relationships.

### **3.2 Company Property and Time**

Company property and time should only be used for business purposes.

All employees have a responsibility to protect the assets of the Group.

The services of staff and other Group resources shall be used strictly for the Group's purposes and not for the purposes of serving or in any manner personally benefiting the Group's employees and/or any third parties. Other than as permitted by paragraph 15 of the IT Security Policy at section E3 of this Manual. Whenever such services or resources are used for the personal benefit of any employee or third party, other than in the proper conduct of the company's business, the relevant company secretary shall be required to give specific written approval thereof.

Disposal of company assets:

- Where any Group company owns an asset for which such company no longer has any use, the asset shall, in the first instance be offered to other Group companies for transfer at a value to be agreed.
- Where no other Group company wishes to acquire the asset in question, that asset may be offered to a Group employee or employees. The company disposing of the asset shall obtain (and keep a record of) at least three estimates of the value of the asset and the offer to employees shall be to purchase the asset at the highest of the three valuations obtained. Where it is not possible to obtain a valid estimate (for example, in the case of obsolete office furniture) the managing director of the Group company concerned shall be required to approve the value at which the asset is transferred to the employee. Any transfer of an asset must be clearly recorded (including any asset number or other identification mark and the transferee's name) and sales should be documented by invoice and income receipt. Should the relevant tax authority determine that a deemed benefit arises on the employee acquiring any such asset, the company concerned will endeavour to procure that the employee does not suffer any tax by virtue of the deemed benefit, which may involve the company meeting any tax liability.
- Gifts of surplus company assets to charities or other third parties may be exempt from the requirement to account for tax upon transfer. Group Treasury should be contacted where ANY assets are gifted.

### 3.3 Personal Expenses

#### General

Sums claimed as expenses or incurred via corporate cards should have been directly and reasonably incurred in pursuit of business interests for the group. Expense payments will be paid up to the lower of the level of agreed allowances, or the extent of the expense.

#### Directors' Expenses and Loans

The expenses of the Chairman are to be authorised by the Chairman of the Audit Committee

The expenses of the Chief Executive are to be authorised by the Chairman.

The expenses of the other executive directors are to be authorised by the Chief Executive.

The expenses of the non executive directors are to be authorised by the Chairman.

#### Directors' Loans:

- The Companies Act 2006 contains a number of restrictions relating to transactions where a potential conflict of interest could arise between directors and their companies. The restrictions apply to all directors of companies in the Group. This note outlines these provisions and gives guidance on their application. NB: It should be noted that these statutory provisions are in addition to the common law fiduciary duties of directors.
- A company may not make a loan (or guarantee or give security in connection with a loan) or a "quasi-loan" to a director or a member of his/her family. A quasi-loan arises in the situation where a company incurs expense on behalf of a director (or family) and which the director is to reimburse in the future, e.g. where a company makes business travel arrangements for a director but the arrangements are tailored to include a non-business element or family members are included. The use of a company credit card for the purchase of private goods or services will also be a quasi-loan.
  - There are exceptions contained in the Act the main one being the provision of funds to meet expenditure for the purposes of the company's business or to enable the director properly to perform his/her duties, provided that the amount does not exceed £50,000.

Difficult questions may arise as to whether expense arrangements amount to the making of a loan, accordingly:

- Prior to the entering into of any transaction or arrangement where doubt arises advice should be sought from the Company Secretary and/or Head of Legal Services as to the procedure that must be followed.

- The private (i.e. family or non-business) element of any business travel arrangements must be quantified **and** paid for by the director **prior** to the booking of the travel arrangements.
- Foreign currency and/or travel cheques provided to directors must not exceed £5,000 and must not be used for private expenses. Upon return from a business trip unused currency or travellers cheques must be returned to the company immediately.

### **3.4 Committing the Company**

Directors and employees should only represent Group companies or exercise authority on behalf of them, if that representation or authority lies within the scope of their job.

Each Group company is responsible for ensuring that its procedures in relation to contracts for goods, services or works shall comply with all relevant rules and regulations which are applicable to the relevant Group company unless specific exemption is obtained in writing. This must then be reported to the appropriate board or sub-committee.

Detailed rules are available for the submission and processing of tenders as well as how to deal with late, qualified and obviously incorrect tenders. Local rules provide for (inter alia) single source quotations, post tender negotiation and levels of authorisation.

Separate procedures are issued from time to time in connection with specialist advisers e.g. external legal advisers – NB: there are specific obligations for Yorkshire Water. Any appointment must be in writing and clearly state the terms and conditions of engagement, details of fees and expenses and any other relevant details. Appropriate legal advice should be sought on relevant regulations and assistance obtained in preparing agreements. Standard forms and documents for reporting should be used where available.

The following are general rules that should be applied for every contract for goods and services:

- Check if any special local, statutory or regulatory rules apply.
- Seek competitive prices/rates wherever possible or obtain approval for single source quotation.
- Record in writing any discussion/negotiation and make sure that there is another employee present.
- Ensure that the correct levels of authority have been obtained before proceeding.
- Involve the appropriate purchasing or procurement department as much as possible.

- Use any standard documents that are available to save time and effort in the long run.
- Obtain legal advice with regard to terms and conditions if not contracting on the Group's own terms.

## **Section 4 - External Appointments**

### **4.1 General**

Employees should not undertake outside employment, whether paid or unpaid, which interferes with their ability to carry out their duties. The following procedures are required to be followed by any director or employee wishing to take up an external appointment:

### **4.2 Executive directors**

Any executive director who wishes to take an external appointment is required to seek the prior approval of the Chairman. They are required to indicate the nature of the business/activity concerned, the likely time commitment involved and any fees or other payments to which he/she will become entitled.

The Chairman will consider each request and indicate approval or otherwise to the appointment. Where it is believed appropriate to do so, the Chairman will bring the matter to the Board for consideration.

The Chairman will also consider whether any fees or payments should be retained by the director or passed to the Company.

The decision of the Chairman or the Board (as the case may be) will be reported to the next meeting of the Board and recorded in the minutes of that meeting.

### **4.3 Employees**

An employee who wishes to take an external appointment which may be considered to impact with their ability to carry out their job should seek the approval of the managing director of the Group company by which they are employed (or in the case of a managing director, the Group executive director to whom they report), indicating the business/activity concerned, the likely time commitment involved and any fees or other payments to which they will become entitled.

The relevant managing director will consider the request in the light of such information and notify their approval or otherwise to the appointment in writing.

Where the time commitment is wholly outside the employee's normal working hours the employee concerned will be entitled to retain any fees or other payments in connection with the appointment. If the appointment will involve time commitments during the employee's normal working hours, the relevant managing director will consider whether, notwithstanding this factor, the appointment is in the company's interests and, if so, whether any fees or other payments should be retained by the employee or passed to the company.

Any approval given shall be subject to revocation in the event that the appointment proves to prejudice the performance of the employee's duties to the company.

In considering any request from an employee, the following guidelines will apply:

- time commitments within normal working hours in excess of 5 hours per week should generally lead to the request being refused.
- appointments will be considered to be in the company's interests where the employee's involvement will enhance the standing of the company or will lead to contacts being made by the employee which could be beneficial to the company's business interests or will develop skills of the employee which will enhance their performance of company duties.
- All outside interests must be registered with the relevant Company Secretary using the form attached at Appendix A.

## **Section 5 - Confidentiality**

### **5.1 General**

Employees should exercise prudence and caution in using confidential information and in sharing it only with those who have a legitimate need to know.

### **5.2 IT Security Policy**

The IT Security Policy applies to the Kelda Group (see Section E3).

This policy covers the use of the Company's IT equipment, systems and services including e-mail (internal and external) and the Internet which are made available by the Group for use by its employees, agents and sub contractors.

It should be remembered that all Group information should be considered confidential (unless specifically stated otherwise) and should not therefore be disclosed to any non-authorised personnel or members of the public.

All users of the Group's equipment and systems are required to follow the policy. Failure to comply with any part of the policy will be investigated, which may lead to disciplinary action and/or dismissal. In relation to any sub contractor or agent of the Group, abuse of the Group's equipment and systems will be investigated, which may lead to termination of any contract.

### **5.3 Public Statements**

No director or employee should make or issue any public statement, or publish or submit for publication any letter, article or presentation relating to the affairs of any Group company without prior discussion with either the Chief Executive or the Chairman where such statement, letter, article or presentation relates or refers to any matter which might be regarded as commercially sensitive or prejudicial to the interests of any Group company.

### **5.4 Confidentiality Agreements**

Many departments and individuals within the Group regularly enter into confidentiality or secrecy agreements whereby they give or receive confidential information for a specific purpose.

To enable the Group to keep a record of the obligations that are being entered into, any agreement relating to a potential acquisition must be reviewed by the Company Secretary. In particular the restrictions that the other party is seeking to impose should be considered to see if they are relevant and reasonable. A copy of the completed agreement must be provided to the Company Secretary.

Copies of all other confidentiality agreements to be entered into must be provided to the company secretary of the relevant company, whether the Group company is the disclosing or receiving party.

## Section 6 - Company Gifts and Benefits to Employees

### 6.1 General

As general guidance when any gift or benefit other than normal remuneration is provided by the Group to a director or employee, the individual making or receiving the gift should ask themselves whether they could easily justify the gift to the Group, the press and the public.

In the UK when any of the expense and benefit items detailed in this code do not qualify for tax relief the PAYE regulations require that the tax liability ordinarily falls on the employee concerned, who is regarded as having received a personal benefit.

In the UK where this Code refers to a Group company meeting the tax liability which would otherwise fall on the employee, this will be dealt with by “grossing-up” the value of the benefit at the employee’s marginal tax rate. The manager responsible for payroll is responsible for making an annual application to the local Inspector of Taxes for the tax due to be settled via a PAYE Settlement Agreement (“PSA”) and similarly, when in force and relevant, National Insurance class 1B contributions.

### 6.2 Giving

#### **Gifts upon retirement:**

##### Non executive Directors:

If gifts are made they should not exceed a maximum value of £500 (including VAT), with the figure to be reviewed from time to time by the board. It is for the Board, excluding the non-executive concerned, to decide whether a gift should be made in the case of the retiring director concerned.

##### Executive Directors :

Gifts to executive directors should also have a maximum value of £500 (including VAT), with the figure to be reviewed from time to time by the Remuneration Committee. Executive directors should receive long-service awards on a basis consistent with the policy for all employees. The Remuneration Committee is responsible for deciding whether a gift to a retiring director is appropriate in the circumstances.

##### Employees (including Directors):

No gifts are to be made to Group employees or other persons at the expense of any Group company without prior approval of a director from the Group company concerned. No gifts are to be made to any Group employee or other person at the expense of any Group company with a cost, which in aggregate in any one year, is in excess of £100 without the prior approval of the Chief Executive or Group Finance Director. The only exceptions to these prohibitions are where an “impromptu reward” is being made under the guidelines issued on HR Online or other small gifts given for reasons other than reward, such as flowers in the case of illness, which are at the discretion of the budget holding manager.

References to “gifts” include the provision of hospitality, services and other items of a non-tangible nature but which involve any cost to the Group company concerned.

Each employee receiving a gift is liable to a tax charge based on the cash equivalent of the gift received. The tax due will be met by the Group company concerned to ensure that the employee does not suffer tax by virtue of receipt of the gift.

Cost codes for items of this type have been established and should be used in all cases to ensure correct treatment.

Anyone making a gift should note that the cost will not be an allowable expense of the company concerned for corporation tax purposes.

Each Group company must declare the total amount spent on gifts in any tax year to the relevant manager responsible for payroll. The declaration must state how many people received gifts and, of these, how many were Group employees. The declaration is to be completed by 31 May in each year, as part of year end procedures. (NB: In the UK “impromptu rewards” are exempt from being declared as the PSA liability has already been calculated at the time of issuing the vouchers). The annual declaration must include relevant cost codes so that the resulting tax charge can be recovered from the Group company concerned.

Employees receive gift vouchers with a value of £300 after 30 years’ service. This figure was set in order to come below the then current Inland Revenue extra-statutory concession for tax on such gifts. The concession actually works on the basis of a maximum amount per year of service and is now set at £20 per year. The concession only applies where a minimum of 20 years’ service has been reached.

### **6.3 Receiving**

Partner Accompaniment at Social Events:

- Spouses or partners of Group employees and directors are only to attend social events at the cost of the Group where it is necessary or appropriate for them to do so to further the business interests of the Group.

So that expenses in relation to events arranged by Group companies can be treated correctly, the person organising the event must keep a record of:

- The employees, spouses/partners and guests attending
- The dates, duration, venue and purpose of the event
- An explanation of the role/purpose fulfilled by the spouses or partners attending, and
- The full costs by category (e.g. travel, hotels, meals etc) clearly indicating where any costs have been met by the employee or spouse/partner.

Each Group company must declare the total amount spent on spouse/partner accompaniment in any tax year to the manager. The declaration must contain the details referred to above. The declaration is to be completed by 31 May in each year, as part of the year end procedures.

The annual declaration must include relevant cost codes so that any resulting tax charge can be recovered from the group company concerned.

Where a spouse or partner of a Group employee attends a social event which falls within this part of the Code the tax authorities may determine that there is a deemed “benefit” arising to the employee. In these circumstances the relevant Group company will, in consultation with the manager responsible for payroll, endeavour to procure that the employee does not suffer any tax by virtue of the deemed benefit.



**APPENDIX B**

**GIFT/HOSPITALITY DECLARATION**

Name .....

Employing Company .....

I have read the Kelda Group Code of Ethics specifically relating to gifts and business entertaining. The following records a gift/hospitality accepted by me in the course of my employment and which requires disclosure under the Code.

.....  
Name of party making gift/providing hospitality

.....  
Relationship of above with the Group

.....  
Description of gift/hospitality

.....  
Estimated value

.....  
Where/when gift made/hospitality took place

Signed ..... Date .....

## APPENDIX C

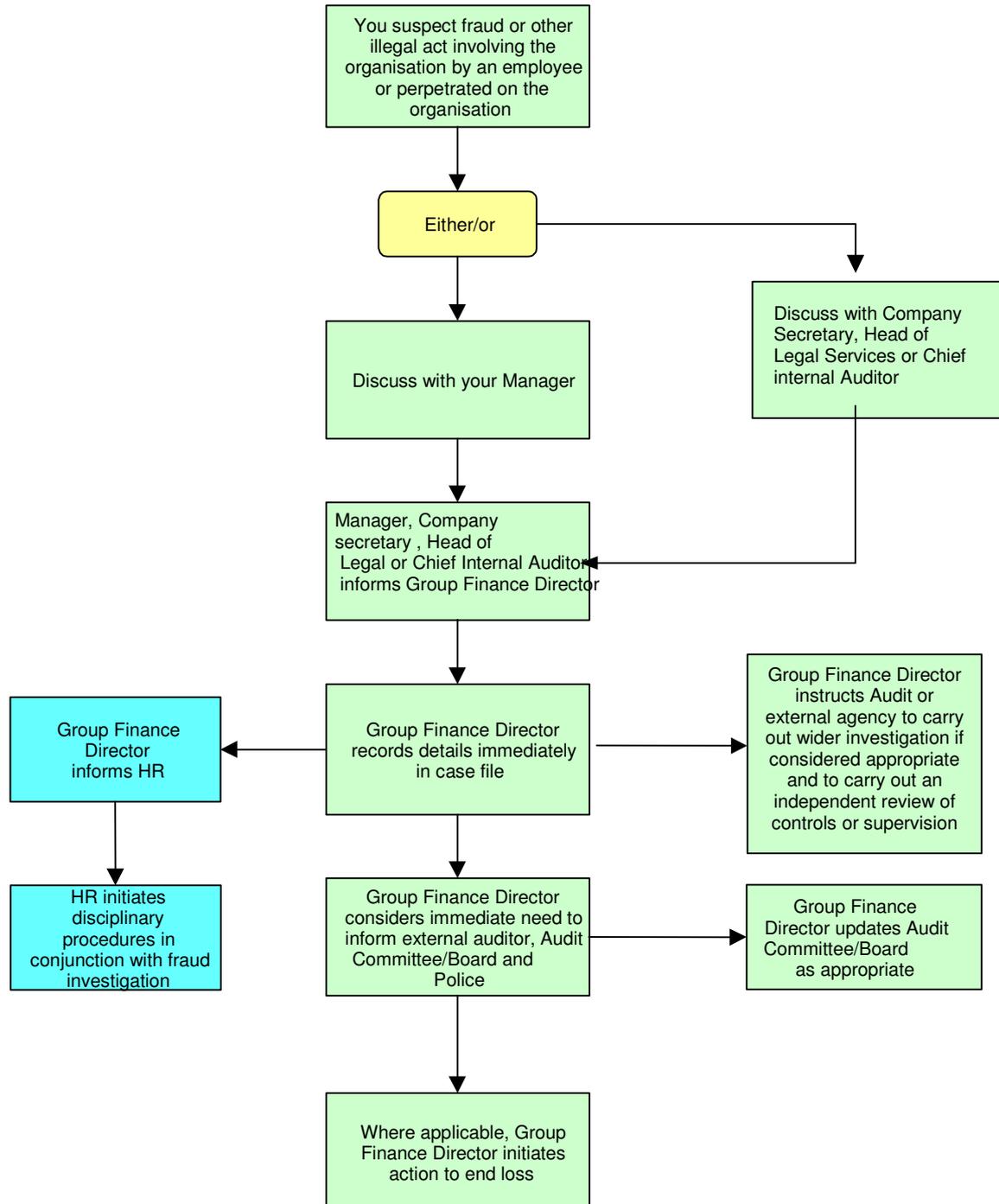
### GUIDANCE TO STAFF ON MALPRACTICE

- There will be no recriminations against employees who report reasonably held suspicions. Any suspicion will be considered reasonably held if there is any justification at all to believe that a possibility, however slight, exists that fraud or a similar offence may have taken place. Victimising or deterring employees from reporting concerns is a serious disciplinary matter. Any contravention of these provisions should be reported to either the Group Finance Director or Chief Internal Auditor. Equally however, abuse of the process by raising malicious allegations could be regarded as a disciplinary matter.
- Employees who have good reason to suspect a colleague or other person of a fraud, corruption, bribery or an offence involving the Group or a serious infringement of Group rules, such as:
  - theft of Group property
  - abuse of Group property or abuse of a position of trust
  - deception or falsification of records (e.g., fraudulent time or expense claims)

can discuss it in the first place with their manager. If the employee suspects the manager of involvement in the malpractice, they should go to the next more senior person. Alternatively they may first discuss the matter confidentially and anonymously with the Company Secretary or Head of Legal Services or directly with the Chief Internal Auditor.

- Employees who are concerned about speaking to another member of staff can ask for independent and confidential advice from the charity 'Public Concern at Work' (telephone 020 7404 6609).
- The manager / director, Company Secretary or the Head of Legal Services should report the matter to the Chief Internal Auditor. The malpractice response plan will then be followed to investigate the matter and take appropriate action.
- Under no circumstances should employees speak to representatives of the press, radio, TV or other third party unless expressly authorised by the Head of Communications.
- Employees should be aware that time may be of the utmost importance to ensure that the Group does not continue to suffer a loss.
- The chart attached shows in flow diagram format the steps to be taken in reporting potential malpractice.

## Fraud – Flow Diagram



**Note:** Where a conflict arises in respect of any roles named in these charts, then another appropriate manager shall take the place of that named role