

Consent to certain actions for the purposes of the Initial Enforcement Order made by the Competition and Markets Authority ('CMA') on 17 April 2015

Completed acquisition by Pennon Group Plc ('Pennon') of Bournemouth Water Investments Limited¹ ('Bournemouth Water')

On 17 April 2015, the CMA issued an Initial Enforcement Order ('the Initial Order') under section 72(2) of the Enterprise Act 2002 ('the Act') for the purpose of preventing pre-emptive action. Under the Initial Order, save for written consent by the CMA, provision was made that Pennon will hold separate the Pennon business from the Bournemouth Water business.

Terms defined in the Initial Order have the same meaning here, unless otherwise indicated.

On 8 June 2015 the CMA, in exercise of its duty under section 32(b) of the Water Industry Act ('WIA91'), made a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013, regarding the completed acquisition by Pennon of Bournemouth Water, in order that the group may investigate and report on the following questions, in accordance with schedule 4ZA of the WIA91 and section 35(1) of the Act (as modified):

- (a) whether a water merger has taken place; and
- (b) if so, whether the water merger has or may be expected to prejudice the ability of Ofwat, in carrying out its functions, to make comparisons between different water enterprises.

The reference has not been finally determined. The Initial Order is still in force.

On 1 May and 3 June 2015 Pennon requested that the CMA consents to the following derogations to the Initial Order:

- Two board members of Bournemouth Water, appointed by Pennon prior to the Initial Order and both officers of Pennon, attend the Bournemouth Water board induction programme and receive commercially sensitive information regarding the Bournemouth Water business.

¹ Formerly known as Sembcorp Bournemouth Water Investments Limited.

- Certain commercial information be shared and discussed with Pennon for the purposes of integration planning.
- An employee of South West Water Limited ('SWW') be seconded to Bournemouth Water to perform the role of an interim operations director.
- SWW provides consultancy advice to the Bournemouth Water business on its IT migration strategy to an independent third party provider.

After due consideration of the request, Pennon may carry out the following action:

1. Chris Loughlin and Gerard Connell may attend the Bournemouth Water Board meetings, and receive commercially sensitive information regarding the Bournemouth Water business necessary for the purposes of carrying out their functions as directors of Bournemouth Water.

This derogation is granted subject to the following conditions:

- (a) Chris Loughlin and Gerard Connell shall each enter into confidentiality undertakings, as approved by the CMA; and
- (b) comply with Pennon's policy on directors' conflicts of interest.

2. Certain commercial information regarding the Bournemouth Water business may be shared and discussed with Pennon and SWW for the purposes of integration planning.

This derogation is granted subject to the following conditions:

- (a) The information shared is restricted to that identifying synergies related to financial information, HR, facilities, IT systems, transport and other business metric information only;
- (b) Pennon and SWW employees involved in the integration planning shall each enter into confidentiality undertakings, as approved by the CMA; and
- (c) Pennon or SWW do not take any steps to implement any planned integration.

3. A Pennon or SWW employee may be seconded to Bournemouth Water to fill the role of an interim operations director.

This derogation is granted subject to the following condition:

(a) The individual appointed shall enter into a confidentiality undertaking, as approved by the CMA.

4. SWW and Pennon may provide consultancy advice to the IT personnel of Bournemouth Water Business on its IT migration strategy.

18 June 2015