

2014 Price Review
Business Plan Supporting Appendices
Board Governance and Assurance

Published 2 December 2013



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Section 1. Board Statement

As Directors of South East Water we recognise that it is our collective responsibility to provide strategic leadership, and to promote good corporate governance within a framework of effective controls, enabling risks to be identified and managed.

We understand that our collective duty to achieve the long-term success of the Company requires us to strike the right balance between the interests of current and future customers, of the community we serve, of the environment, of our employees and of our shareholders. We must, in every decision we make, maintain a reputation for high standards of conduct and as a dependable provider of an essential service.

We want to ensure that we remain focused on maintaining the right level of service to our customers at the right price while ensuring the long-term sustainable delivery of water supplies to the communities we serve. We are convinced that the legitimacy of our business is key to how customers will perceive and accept our plan. We have endeavoured to make our plan clear and understandable by our customers.

In this statement, we describe how we have put in place a process that ensures our plan is solid, based on evidence, and on the engagement we have undertaken with customers and other stakeholders, which is reflected in the fabric of our plan and the choices we have made. Our Customer Challenge Group (CCG) has provided a vital contribution in ensuring that our engagement has been comprehensive, effective and embedded in our decision making processes and ultimately our plan. The group provided robust and constructive challenge. The CCG's recommendations have helped shape our customer engagement programme and translate customers' expectations into our plan and our incentive mechanism.

Focus on customers, strong Board leadership, high standards of governance and transparency will continue to be our guiding principles as we deliver our plan.

We have also built on similar engagement with members of our Environment Focus Group for the preparation of our Water Resources Management Plan (WRMP) and we endeavoured to ensure that there was continuity of representation from our WRMP to our business plan, which contributed to an informed and effective challenge throughout the entire process.

We believe this process of engagement has been a success, providing feedback and constructive challenges throughout the preparation of our plan. We would like to thank the members of the CCG and of the Environment Focus Group for their valuable contribution.

We are acutely aware of the impact the economic downturn is having on our customers and that affordability of utilities bills is a critical factor at this price review. We have considered a number of options to ensure that we provide the best package of price and service possible to our customers. We have also made sure that we offer specific help for our vulnerable and low income customers.

With these objectives in mind, from the outset we have embedded key principles of governance in the construct of our process for the preparation of our plan, and we have relied on comprehensive and transparent controls and assurance mechanisms.

While we have collectively assumed our responsibilities in preparing this high quality plan, as part of a unitary Board, Independent Non-Executive Directors have been encouraged to, and have constructively and effectively, challenged and helped develop the proposals on strategy, the key

principles underlying this plan and the selection of best options.

This statement describes the framework of engagement, control, and oversight that we have put in place to satisfy ourselves that the Company delivers a high quality plan which is supported by customers and stakeholders. It sets out the detail of our governance and assurance processes and how this has enabled us to have a high degree of confidence in the quality of our business plan. We have delivered rigorous Board scrutiny, strategic decisions and have ensured there was effective engagement with the CCG at Board and management level. We also established clear accountability for data collection and analysis, and for the preparation of the different components of our plan which was reinforced by thorough external validation.

The Board as a whole has actively scrutinised, tested and challenged the options and assumptions in the plan; each director has contributed his or her experience and perspective and all have been conscious to keep water bills affordable while ensuring the long term viability of the necessary infrastructure.

The Board ensured that it could consider a range of options and scenarios to inform its decisions and to be able to test the management team's assumptions to make sure that the plan delivers its challenging objective of low but sustainable bills for all customers, and provides specific help for our vulnerable and low income customers. The management team has been encouraged to refine options and develop alternatives that strike the right balance for customers and other stakeholders.

This approach informed many other aspects of our plan and all of our strategic choices. We have conducted comprehensive customer research to understand what our customers think about our service now and what they want the service to be in the future. We developed innovative approaches to tackle our specific challenge of delivering improvements in our service despite our customer research showing that customers are, in general, not willing to pay for improvements in service.

We have made our plan accessible for customers and made sure that we have clearly stated our commitment to customers, following the principle of CLEAR and CHOICE, and defining outcomes and incentives based on customer satisfaction which keeps customers at the centre of our plan. We have ensured that the respective responsibilities of the wholesaler and retailer are clearly identified but reinforced the ethos of a customer-driven wholesale business, as all areas must contribute to deliver service improvements and customer satisfaction.

Our plan is a challenging one. We have set ourselves tough efficiency targets and we have planned to use potential upsides to keep bills as low as possible. We have significantly reduced the cost of capital included in our bills and set ourselves a challenge to bridge the gap between actual and allowed cost of debt. Our plan is focused on the future but we have not ignored the past. We have carried out a full review of our past performance which is set out in the appendix 2010-15 Performance. We will build on our strengths but we must drastically reduce the level of customer complaints. This Board has been leading the effort in this area and the management team has worked hard to deliver improvements. In the last few years we have seen material improvements but we must do more. This Board is committed to achieve this key objective in the next five years.

We have set financial incentives against our outcomes, except when they are already covered by existing legislative or regulatory incentives. Our innovative approach to incentives combines customer satisfaction measures and performance commitments. This is a step change which demonstrates our commitment to deliver these outcomes for the benefit of our customers.

Relying on this comprehensive governance framework, the Board of South East Water is able to confirm that:

- it has satisfied itself that it has sufficient processes and internal systems of control to meet its obligations;
- it has satisfied itself that the data collection systems and procedures used to compile the estimates and data are adequate and appropriate to ensure accuracy, reliability and independence from other companies and competitors;
- it has satisfied itself that the data collection systems and procedures used to compile the data to demonstrate compliance are adequate and appropriate; and
- it has appropriate systems and processes in place to allow it to identify, manage and review its risks.

The transparency of the process followed allows the Board to confirm that all elements of the business plan and all supporting appendices meet the following criteria:

- *Affordable*: they result in a plan that is affordable, supported by customers and is financeable;
- *Customer driven*: they are based on a comprehensive programme of engagement with current and future customers and are designed to deliver both customers' priorities and outcomes;
- *Customer focused*: they are based on a suite of strong reputational and financial incentives that reflect the value customers place on their water supply service and are reflected in our innovative incentive mechanism which is centred on achieving customer satisfaction;
- *Fair*: they result in a reasonable balance of risk and reward for customers, investors and all stakeholders;
- *Responsible*: they provide a balanced approach to risk so that neither the customers, Company, or investors are bearing more risk than is reasonable;
- *Efficient*: they deliver challenging cost efficiency targets for the Company to ensure price implications are mitigated for customers.
- *Resilient & sustainable*: they deliver outcomes that will protect future customers and the environment;
- *Compliant*: they ensure the Company is able to meet its statutory obligations now and in the future; and
- *Evidence based*: they are based on the best available information to ensure accurate projections and estimates.

These principles have guided us in achieving our primary objectives of legitimacy and transparency which we recognise as the essential conditions to obtain the support of our customers.

Section 2. Board Engagement

Board Structure

Our Board is structured, managed and our performance is measured to ensure that it is effective and complies with the highest standards of corporate governance.

The appointment of high calibre independent non-executive directors with complementary skills and experience, and new executive appointments harnessing a wealth of industry and company knowledge, demonstrate the commitment of the Board to ensure that it maintains the appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge

its duties and responsibilities effectively.

We have overseen a number of changes to the Board during the last two years. Charles Harries and Robert Weeden retired from their positions as independent Non-Executive Directors in 2012 and David Shore retired as Operations Director in 2013.

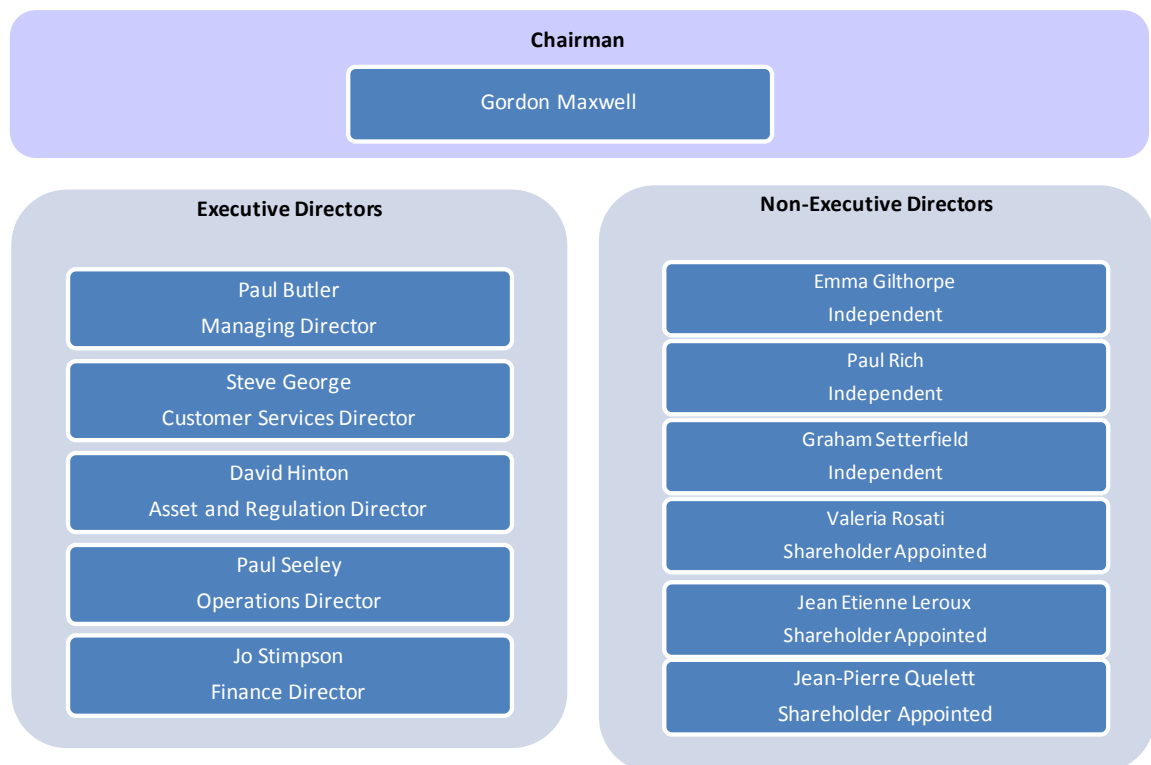
Emma Gilthorpe and Paul Rich took up positions as independent Non-Executive Directors in 2012 and 2013 respectively. Emma and Paul bring with them a wealth of regulatory and business management experience from outside of the water industry.

Paul Seeley has taken responsibility for Operations and David Hinton has been appointed to the Board as Asset and Regulation Director.

Jean-Pierre Ouellet also joined the Board as a shareholder appointed Non-Executive Director in 2013. Although he is a shareholder appointed Director, Jean-Pierre Ouellet is independent of the shareholder. Kanishk Bhatia left the Board as a shareholder appointed Non-Executive Director in 2013.

We have managed these changes to our Board as the Company was preparing its business plan in a way that brought fresh perspectives and experience to the process at a critical time. This will be useful as the Company moves towards the new regulatory period.

Figure 1 South East Water Board Structure



Board Oversight

The level of Board engagement and oversight has been enhanced to enable us to provide strategic direction for each component of the plan and has ensured full transparency of the process. We have

built on our established processes to meet the requirements of a new ethos of company ownership of plans.

The Board normally meets ten times a year and at each meeting the Executive Directors provide an update on all aspects of the Company including the business plan. This pattern of regular meetings and reporting on key aspects provide a continued oversight and direction on company matters. In addition to regular meetings, the Board meets whenever necessary.

In light of the need for clear Board and Company ownership of plans, our desire to embrace this approach and the significance of Board assurance for this business plan, the level of Board engagement has increased. For business planning purposes the Board has held six business plan specific meetings, in addition to agenda items at the main Board meetings. These meetings were for the sole purpose of the business plan and have enabled us to provide strategic direction on each component of the plan and have ensured we had full visibility of the process and made decisions on key principles and options.

The first two meetings were held in November 2011 and January 2013. They focused on strategic planning for the business plan, setting objectives, the customer engagement plan and the draft price review methodology.

The final four meetings were held in June, July, September and November 2013. These meetings focused on the details of the business plan with all Board members reviewing the financial modelling, findings from the customer engagement and interpretation into the business plan, drafting of the wholesale and retail plans including the structure and emphasis and development of the investment programme.

These meetings have paid particular attention to the draft prices for customers and ensuring there was a fair balance of risk and reward for customers, investors and stakeholders within the plan. The November meeting reviewed the final business plan and provided sign off for submission.

Throughout this process independent non-executive directors have been encouraged to, and have constructively and effectively, challenged and helped develop the proposals on strategy, the key principles underlying this plan and the selection of best options to ensure in particular that the interests of customers were duly considered and protected.

The Board as a whole has actively scrutinised, tested and challenged the options and assumptions in the plan; each director contributing his experience and perspective; all being conscious to keep bills affordable. The Board challenged management to drive quality and innovation and to deliver the highest quality plan. In the other sections of this statement we describe the other steps we have taken to ensure our plan was the product of robust processes, accountability and constructive challenge.

Section 3. Setting the strategic direction, principles and values underlying our plan

The Board has stated the Company's strategic aims and defined at the outset key principles, values and objectives which are reflected in the plan. We welcome the new ethos of Company and Board ownership of plans and we embrace the flexibility and potential for innovation this brings.

We have expressed our key objectives and outcomes within our 25 year strategy document entitled "Clear Water" published in June 2013. This document states the our objectives with regard to water

supply sufficiency and quality and the balance we intend to achieve between the interests of customers and shareholders.

In conjunction with this we developed further guiding principles for business planning which include:

- We will ensure customers views are robustly gathered, considered and explained;
- We will be actively engaged with the debate on regulatory reform and price setting to ensure our views have the appropriate level of influence;
- We will take an open and honest approach with Ofwat exposing issues and communicating in a professional manner;
- We will put across a considered view on the appropriate balance between customers priorities, risk and return;
- The Board will be actively engaged in the business planning process and will have ownership of the final plan assured by the appropriate level of governance;
- We will have regard for the regulatory reform in the creation of the plan and will seek to ensure it has either taken account of Ofwat's objectives or has explained where it has not;
- Our business plan will be credible and evidence based and will be internally assured and will not be driven by preconceived outcomes e.g. balance between capital and operating cost solutions or the selection of home grown water supply solutions over shared solutions;
- We will ensure the CCG is adequately engaged and kept informed of the progress of the business plan so that the CCG can effectively undertake its stated objectives. This includes regular meetings with the key regulators; and
- Our business plan will be independently produced and only use shared evidence where it is appropriate to do so e.g. customer engagement and acceptability.

Section 4. Demonstrating legitimacy and engaging with customers and stakeholders

Customer Challenge Group

The Board has welcomed the introduction of the CCG and the beneficial impact it has had on the development of the business plan. The CCG process has been open, positive and constructive which has contributed to a business plan that is customer focused.

Throughout the preparation of the business plan the Board has been actively engaged with the work of the CCG. Roger Darlington, the independent Chair, has attended 4 Board meetings to update the Board on the progress of the group and to highlight any emerging concerns the group had.

Outside of the formal Board meetings Roger Darlington has also had regular update meetings with both the Chairman and Managing Director.

Valeria Rosati and Jean-Etienne Leroux, shareholder appointed Non-Executive Directors, presented to the CCG in July 2013 on the invitation of the CCG. They provided further information on group structure, enhancing the transparency of the information provided to the CCG. They also discussed the following topics with the CCG:

- Why the investors chose to invest in South East Water?
- What their expectations are for those investments?
- How shareholder and customer interests can be brought into alignment?

The independent non-executive directors met the CCG Chairman on 5 November 2013 to review the draft CCG Report and discuss other aspects of our business plan.

Outcomes and Incentives Assurance

In the build-up to the business plan, stakeholders have expressed objectives that focused on a need to release companies from regulatory outputs in a way that would allow greater flexibility and create the correct environment for innovation and ownership of the relationship with customers and their priorities.

This Board has adopted the concept of outcomes and following an extensive engagement programme, has designed outcomes that directly relate to customers' views on the acceptability of the service they receive. This is opposed to the traditional approach of measuring only either activity or service failures. This is a change that is supported by customers in the findings from the acceptability research. We have chosen an innovative approach to the incentives and outcomes with a strong emphasis on customer satisfaction measures. We believe that using customer satisfaction measures is the best way of providing customer-centric incentives to drive performance improvements:

- These improvements reflect the results of the extensive programme of customer surveys carried out for the preparation of our plan;
- The measures we propose reflect actual customer concerns and will be more relevant to them; and
- The real difference of this approach is that it will allow the Company to use a wide ranging set of actions to improve satisfaction, not just focusing on the traditional output but engaging with customers in a more effective way.

However, this approach includes risks inherent to its novelty and to the potential impact of external factors on the perception of the company by customers. There is limited historical data which can be used to assess the potential impact of customer satisfaction measures. This renders the overall outcome less predictable than more common but less innovative approaches. Customer satisfaction may also be influenced by factors other than levels of service delivered by the Company and this increases the exposure to uncontrollable risks. Despite these higher risks, we have set financial incentives against these customer satisfaction measures rather than using mere reputational measures. This is a step change which demonstrates our commitment to deliver these outcomes for the benefit of customers.

To underpin this, we will create and publish annually a set of specific service metrics, such as number of supply interruptions, which will provide reassurance that the overall service is acceptable and it is maintaining service to current and future customers.

In a separate appendix the approach to outcome development and associated performance commitments and incentives is outlined. The Board can confirm that the outcomes proposed:

- Reflect customer priorities;
- Have strong reputational and financial incentives based on customers' values;
- Are consistent with the Company's statutory obligations;
- Deliver the outcomes current and future customers prioritise;
- Reflect a behavioural change towards measuring customer satisfaction as well as specific service metrics; and
- Have challenging performance commitments associated with them.

Section 5. Ensuring appropriate controls to achieve a fair and transparent outcome

We have implemented a comprehensive set of governance processes to ensure that our plan was prepared within a robust and effective framework of controls and risk management. This also ensured that we received the necessary information in a timely manner and in a form and of a quality appropriate to enable us to develop a high quality plan.

This gives us confidence that the information presented in the component parts of the plan is fair, balanced and understandable.

Governance and Assurance Process

The specific governance and assurance process put in place by the Board and followed for the preparation of the business plan supplements the well-established systems of internal control already in place whilst maintaining consistency with processes followed for all regulatory and performance reporting.

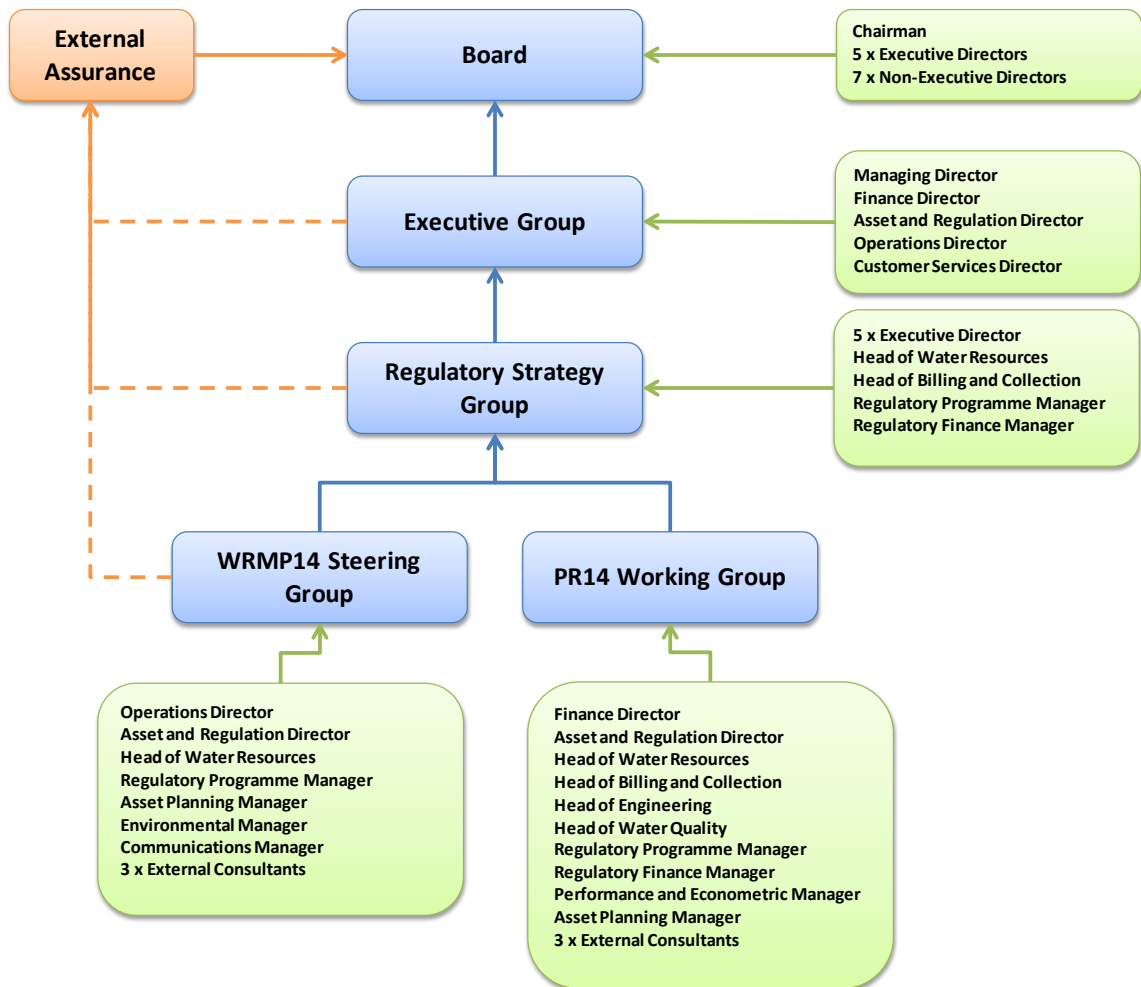
This process incorporates Board, Executive group, Heads of Department and Manager level sign off. Figure 2 provides an outline of the governance structure in place for the business plan.

We ensured the business plan had a clear ownership structure with relevant Directors and Managers taking ownership of sections of the plans and supporting material. Each data table has data providers assigned for each line and each table has an overarching table owner who is a Head of Department, reporting to a Director. The data providers are responsible for collecting, compiling and reporting the data to the table owner and the table owner is responsible for reviewing such data.

The Board has established a strong governance and management framework ensuring statutory requirements are met and published data is robust, accurate and of a high quality.

To ensure the reliability, accuracy and completeness of the data reported, the process for completion of data is built on a clear ownership structure, a structure that incorporates Heads of Department, Executive sponsorship and the Board. The Board also assures itself through external independent assurers on all published data and statutory performance reporting.

Figure 2 PR14 Governance Structure



External Assurance

As the process and associated data items are complex and detailed, the Board focuses on the process followed to prepare and review data, and obtains additional information and analysis from the Executive Directors. In addition, the Board assures itself of the robustness of data by gaining assurance from external assurer, Strategic Management Consultants (SMC) and the Company's auditors Deloitte. This external assurance role is consistent with that followed for all regulatory and performance reporting.

SMC are independent professionals appointed by the Board to act as professional commentators and certifiers. SMC's role is to assist the Board to ensure, completeness of the business plan, compliance with relevant duties and obligations, and to ensure that the information provided by the Company, to demonstrate compliance with the relevant duties and obligations, is consistent, comparable, reliable and accurate. The scope of work requested by the Board is shown in Figure 3. SMC attended the Board in July 2013 to report on their findings from their assurance audit on the August Data Submission and again in November 2013 to report their findings from the core business plan audits. SMC also attended a meeting of the CCG in November 2013 to present their findings from the assurance audits.

Figure 3 External Assurer Scope of Work

The level of audit must be sufficient for the assurer to:

- Be satisfied as to the adequacy of the Company's methods and procedures to provide information that is reliable and accurate;
- Be satisfied that the Company's work is consistent with the methods, procedures, policies and assumptions stated by the Company;
- Test that there are coherent and explained links between the current information and earlier relevant information provided by the Company;
- Comment on how the Company's plan balances competing priorities and reflects the views of customers and other stakeholders;
- Identify whether the methods and procedures adopted by the Company for the production of information provide a credible system of quality assurance and are adequate for producing such information; and
- Test that the methods and procedures are followed rigorously and accurately by the Company.

The assurer should encourage the Company to expose fully within its technical reports all material assumptions that the Company has made. The assurer shall comment on any material omissions from the reports, including the consequences of the omission.

Material assumptions should be subject to scrutiny and, where appropriate, be challenged. The extent of challenge is a matter for the assurer's judgement. The assurer's audit findings report should make clear the scope and extent of the material challenges.

The assurer shall interpret and use available industry information to make comparison, assist certification and preparation of their reports to the Board.

The Company's Duty to the Assurer

The Board will ensure the Company shall:

- Make the assurer aware of the Company's policies and assumptions underlying the approach to their information;
- Provide the assurer with a scope of audit two months in advance of the planned audit date; and,
- Provide the assurer with all information required to complete their audit.

Assurer' Duties to the Board and the Company

The assurer shall submit to the Company a plan of their audit in advance, by a date agreed with the Company, after receipt of the audit scope.

Following completion of the audit, within two weeks, the assurer will provide the Company with an audit findings report. This report should provide an overview of the information provided at audit, detail the challenges made and highlight any issues or concerns the assurer has with the information, processes or assumptions provided by the Company.

Following completion of all required audits, the assurer will provide a summary of audit findings report to the Board, highlighting material findings, and will attend the relevant Board, Regulatory Strategy Group and Customer Challenge Group meetings as requested by the Board.

The assurer shall ensure that information and data obtained from the Company or any consequential results of the assurer's work on any submission shall not be communicated to any other companies or third parties.

Assurance on 2010-15 Performance and Statutory Obligation Compliance

In a separate appendix the performance against commitments in the current period has been outlined. The performance outlined in the '2010-15 Performance' appendix presents a fair and accurate statement of the Company's actual performance to date and forecast performance to 31st March 2015.

The statement of performance is consistent with the 2011 June return, the annual performance reports published and associated risk and compliance statements. Any resulting adjustments, from legacy tools, to price controls for 2015-20 are calculated in line with the Ofwat guidance and reflect the performance reported.

The Board is pleased to be able to report that in the current period obligations have been met and performance commitments delivered for customers and stakeholders.

The Board has also obtained assurance that the business plan would enable the Company to maintain compliance with its statutory duties and obligations. Appendix "Statutory Obligations" set out the approach followed in this respect.

This specific process for the business plan is additional to the regular monthly, quarterly and annual performance review cycles followed by the Board and the review of the Company's risk register. All these measures allow the Board to confirm that it is satisfied that the processes and systems of internal control are appropriate, robust and operating as expected.

Section 6. Board Leadership, Transparency and Governance

In the previous sections we have described how this Board has applied principles of governance in preparing this plan. However, we have also been focusing on the wider aspects of corporate governance and compliance with related Licence conditions. We are aware that this is an important basis to establish the legitimacy of our decisions now and in the future.

In this section, we address the requirements set out by Ofwat in Information Notice 13/13 which followed its consultation on proposed principles of Board leadership, transparency and governance.

This Board is fully committed to the highest standards of governance and is fully cognisant of its duties under the Companies Act 2006, the Licence as set out in particular in Condition F and of the principles of the Corporate Governance Code. In reviewing its corporate governance processes and practices, this Board has regard to relevant guidance from FRC, ICSA and other institutions as appropriate.

All decisions relating to the Company are taken by the Board collectively where independent non-executives directors and shareholder appointed directors sit alongside the executive directors. We are rigorous in the pursuit of appropriate balance between the interests of customers and other stakeholders and decisions are reached following robust engagement and by agreement. This consistent and well established practice of our Board ensures compliance with the requirements of the Licence to conduct the Appointed Business as if it were substantially the Appointee's sole business and the Appointee were a separate public limited company.

In our annual financial statements we include a comprehensive Corporate Governance Statement, setting out transparently, principle by principle, how we comply with the Corporate Governance Code, detailing carefully those areas where we comply with the principles in a different way to that envisaged by the Corporate Governance Code's provisions. The standards of disclosure in the Company's corporate governance statement have been discussed by this Board directly with the auditors to ensure that they meet the highest standards of governance.

This Board pays particular attention to the requirements of the Corporate Governance Code on board leadership and board effectiveness. In compliance with these requirements, this Board has undertaken a formal and rigorous evaluation of its performance and of its remuneration committee. Based on this evaluation this Board has agreed steps to enhance corporate governance. Directors confirm they are able to allocate sufficient time to the company to discharge their responsibility effectively. The Board has adopted a formal schedule of matters specifically reserved for it. These include strategy and management, structure and capital, financial reporting and controls, approval of the annual business plan, major contracts, regulation and dividend policy. The Board has also adopted a formal schedule setting out the division of responsibilities between the Chairman and the Managing Director. The terms of reference of the remuneration committee have been formally updated to reflect its role as a nomination committee which is responsible for conducting appointments to the Board in accordance with the principles of the Corporate Governance Code and the Company's diversity policy.

The Board ensures that it complies with the principles of the Corporate Governance Code on accountability and has in place effective and comprehensive systems of internal control and risk management and is responsible for checking their effectiveness. The Board regularly reviews the ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This review is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

These systems enable this Board to ensure compliance with the requirements of the Licence to ensure that the Company has adequate financial resources and facilities, management resources, and systems of planning and internal controls to enable it to carry out the regulated activities. The Directors provide confirmation annually of compliance with these requirements in the regulatory accounts in accordance with the Regulatory Accounting Guideline. The Directors received a specific update on compliance with ring-fencing provisions and agreed a set of checks and information to ensure that they can independently satisfy themselves of the Company compliance with these requirements.

Key features of the system of internal control include the following:

- A formal schedule of matters reserved for the Board ensuring that all strategic and material aspects of the business are considered at Board level;
- Regular Board meetings with monthly, quarterly and/or annual performance reporting on all key areas of the business which highlights risks, business and operational issues for consideration by the Board as they arise; these checks ensure that the Board reviews all material controls including financial, operational and compliance controls;
- A formal risk register and management system for the identification, evaluation and mitigation of risks, which is updated and reviewed monthly by executive management, with reporting to the Board twice a year for review of the risks report and of the implementation and effectiveness of the relevant mitigation measures and control processes;
- A comprehensive five year business plan and annual budget and a rigorous process of monitoring actual performance against the budget and business plan;
- Through the Executive Investment Committee, policies and procedures for the approval and

control of all major items of capital expenditure and for the acquisition and disposal of material assets completed by monthly and quarterly reporting to the Board;

- Clearly defined organisation structures, appropriate delegated authorities and established policies and procedures, which are reviewed annually, for conducting significant aspects of the Company's activities;
- Policies and procedures for the approval and control of any arrangements which could give rise to a material liability for the Company; and
- Board review and sign-off of regulatory returns and plans including the business plan, water resources management plan, drought plan, annual risk and compliance statement, the principle statement, annual accounts and regulatory accounts with review and audit of systems and data by external Reporters and the Company's auditors.

The Company does not have at this stage a separate audit committee but explains fully in its corporate governance statement how it ensures compliance with the relevant principle of the code. Our approach is discussed each year directly with the Company's auditors to ensure that it continues to deliver a level of scrutiny by the Board which is comparable or in excess of what could be expected with a separate audit committee.

The remuneration of directors is determined by the remuneration committee of the company which is chaired by an independent non-executive director and includes all non-executive directors. The terms of reference of the remuneration committee incorporate the principles of the Corporate Governance Code on the level and components of remuneration. The Company complies with the principles of the Corporate Governance Code on remuneration.

This Board has responded to Ofwat's consultation on minimum principles on Board leadership, transparency and governance and confirms that it intends to comply with the proposed principles and the timetable set out in the consultation.

By 28 February 2014 we will develop our initial company governance code which we will share with Ofwat following publication by Ofwat of its final principles in January 2014. By 1 April 2014 we will finalise our company governance code and our steps for implementation which we will share with Ofwat. By 1 April 2015 we will have completed the implementation of our code.

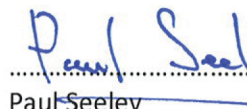
Our approach to the development of our governance code will acknowledge the need to achieve the highest standards of governance where departures from the principles should be the exception and would need to be carefully explained. Where necessary we will explain how compliance with the principles is achieved whilst taking account of the specific characteristics of the Company in particular its ownership structure. In developing our code we will have regard more particularly to achieving legitimacy and transparency taking account of relevant policy documents published by the Department for Business Innovation & Skills and guidance from other institutions.

Signed by the Board

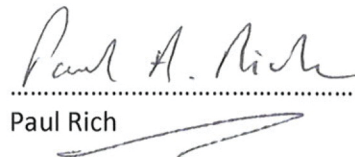
Chairman


.....
Gordon Maxwell

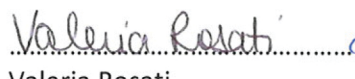
Executive Directors


.....
Paul Butler
Managing Director
.....
Steve George
Customer Service Director
.....
David Hinton
Asset and Regulation Director
.....
Paul Seeley
Operations Director
.....
Jo Stimpson
Finance Director

Independent Non-Executive Directors


.....
Emma Gilthorpe
.....
Paul Rich
.....
Graham Setterfield

Non-Executive Directors


.....
Jean-Etienne Leroux
.....
Valeria Rosati
.....
Jean-Pierre Ouellet



Business Plan 2014 Assurance

Board Overview

28th November 2013

SEW PR14 overview

Summary of key SMC findings

Company Approach

The Company has followed the guidance contained in 'Setting price controls for 2015-20 – business planning expectations' issued by Ofwat on 25th July 2013.

SMC Approach

Our overall aim is to provide the Company with assurance that its PR14 Business Plan is comprehensive and soundly based.

To achieve this we used our knowledge and experience to plan a depth and direction of audit we believed was appropriate to expose any material matters. We checked the SEW approach for completeness and compliance with Ofwat guidance. We examined the underlying methods and assumptions used to prepare data and checked for consistency with previously reported material. We also considered management methods, corporate ownership and the level of stakeholder consultation. Finally we reviewed how well the SEW plan meets Ofwat's definitions of a 'high quality' plan. In particular whether the plan –

- Comprises stand-alone components for each of the three price controls
- Embraces the results of comprehensive consultation with customers and other stakeholders
- Enables regulators to confirm through the Customer Challenge Group that all statutory obligations will be met
- Contains a coherent narrative based on sound and proportionate reasoning
- Is cost efficient, based on robust data and contains well reasoned forecasts
- Delivers good current and future outcomes for customers and the environment
- Is well balanced, affordable and financeable
- Comes with a high level of assurance

Plan structure

We can confirm that the SEW PR14 Business Plan structure meets guidance requirements and the arrangement is in our view both logical and fit for purpose.

AMP5 performance

We conclude the Company has achieved performance to date during AMP5 that compares well with its PR09 FD obligations. We can see no reason why this should not continue for the remainder of the period as predicted by the Company

Outcomes

The Company has considered a wide range of outcome designs, consulted widely and adopted an approach that retains some innovation, provides a satisfactory balance of the important aspects of company performance and in our view appears workable.

Capital maintenance

We are satisfied the proposed overall programme of AMP6 Base Maintenance interventions is soundly based, reliably costed and consistent with SEW's recent experience of spend and resulting serviceability.

Supply demand

We examined the draft Water Resources Management Plan (WRMP) in detail earlier in 2013 and subsequently checked the Statement of Response details have been correctly incorporated in the revised WRMP; to give a portfolio of interventions that include new supplies, transfers and demand reductions. These WRMP interventions clearly provide a 'twin track' approach and cover inter zone and inter company supply demand balance requirements. We are satisfied the optimiser has selected a portfolio of long-term least cost solutions to maintain appropriate target headroom in the water balance.

We also support the continuation of the metering programme and the proposed Network strategy schemes, including the additional cost beneficial intra zone expenditure.

We believe the leakage proposals present a significant challenge for the Company and have pointed out the uncertainty surrounding water savings assumed to derive from metering and water efficiency measures.

Water quality

We conclude that the water quality activities included in the plan properly align with the regulators stated water quality and environmental requirements for the AMP6 period. We are also satisfied that the estimated costs are in general soundly based.

Opex/totex

We understand the Company proposes to allocate its Totex in a way that mirrors the traditional approach by mapping Opex plus IRC to 'fast' money and enhancement Capex plus above ground maintenance Capex to 'slow' money.

We support this approach until it is clear what might be the effect and desirability of selecting a different distribution.

Efficiency

We conclude the Capex efficiency appears achievable but in our view the opex proposals present more of a challenge.

Overall integration of plan components

We have reviewed the overall design of the SEW PR14 Business Plan and conclude it contains a series of logical components that knit together satisfactorily. We have not identified any missing elements and have specifically checked for any overlaps or double counting.

Corporate governance

The SEW PR14 plan has benefitted from a clear framework of preparation control that included appropriate consultation, checks that guidance was met, components were delivered in a logical order and that each component had clear ownership. We also note a particularly evident hands-on approach from the Board and its executive throughout the preparation of the plan, together with clear arrangements for sign-off.

We conclude SEW has in place a particularly effective level of corporate governance.

Stakeholder consultation

We note the Company has carried out a comprehensive programme of quantitative and qualitative stakeholder consultation in close conjunction with the CCG. We are satisfied the assessments of willingness to pay for changed levels of service are the result of robust surveys and analysis and we believe the results have been appropriately considered in the plan.

Overall SMC conclusion

We conclude the SEW PR14 Business plan is efficient and comprises a coherent well-supported narrative that offers a satisfactory balance between business risk, affordability and Company financeability. In addition, the plan in our view embraces the results of comprehensive stakeholder consultation, is designed to meet statutory obligations and appears capable of delivering good outcomes for customers and the environment.

Date: 27th November 2013

Prepared by: B Garrett