

Annual Board statement on the Company's direction, aspirations and performance

Direction and aspirations

As a Board we work with executive management to ensure that our long-term strategy reflects the priorities of our customers and other stakeholders. The Board is involved at each stage of the process of developing both short and long-term plans – from initial customer engagement, through development of each commitment to the final testing of acceptability with customers. In doing so each independent non-executive director champions a key theme in our strategy and works with executives in developing these themes into a company-wide strategy.

We published our Long-Term Vision in January 2018 and this complements our shorter-term plans for delivering a high-quality service for our customers. These plans are built around a series of pledges and commitments to deliver the service expected by our customers across the various touch points we have on their lives – our aspiration is to ensure a continuous supply of high-quality water, accurate and affordable bills, dealing with enquiries efficiently, reducing our impact on the environment and helping communities thrive.

Alongside the significant involvement from customers in developing our strategy and the plan to deliver it, we have taken on board the views of stakeholders at a local, regional and national level. Over the last year members of the Board have participated in engagement with government, regulators and the Water Resources in the South East regional planning group. Board members also met with, and attended meetings of, the Customer Scrutiny Panel to seek an independent view of its interaction with the executive team in reviewing our future plans and how performance is reported.

Performance

This Annual Report summarises the progress we have made in year four of the current five year plan period 2015-2020 in delivering against the commitments in that plan. It also explains the challenges we have faced and what plans we have therefore put in place to make sure that we meet all commitments in the final year of the current period. This includes the decision we took as a Board in the last year to make significant investment in our digital and customer relationship management and billing systems with a large proportion of the investment needed coming directly from the Company's shareholders in recognition of the need to make improvements for the benefit of our customers.

Our future plans, including the benefits that will be driven by this investment, are set out in our Business Plan for 2020 to 2025 which is currently being assessed by Ofwat.

While we await the results of Ofwat's assessment, we continue to execute against the plan that we have developed with our customers and stakeholders. This includes the following actions being taken:

- Making investment now so that we can meet our sector leading performance commitments to reduce bursts and cut supply interruptions
- Putting in place the arrangements needed, both within the Company and with external partners, to make sure that we can meet our commitments to reduce leakage and install meters at rates significantly greater than we have delivered in the past
- Reducing the cost of the day-to-day activity we carry out through adopting the latest technologies and thinking differently about how we process data and information
- Starting the process of receiving CommunityMark accreditation from Business in the Community and improving the ecology at our treatment works has enabled us to become the 14th organisation in the UK to have sites recognised under the Wildlife Trusts' Biodiversity Benchmark
- Reducing our gearing (the proportion of debt we hold) to c61% at 31 March 2019, well within the levels that Ofwat has deemed as reasonable
- Developing and signing up to the long-term commitments made by the sector in its Public Interest Commitment, published in April 2019.

In addition to the summary of performance provided in this Annual Report, the Board reviews the performance of the Company on a monthly basis, reviewing the results of performance against financial and non-financial objectives. This takes the form of direct review and challenge with the executive directors and senior management in face-to-face sessions with the Board, to understand both historic and forecast performance, and the initiatives in place to ensure the latter remain on track to meet or outperform budgeted objectives.

Being a responsible business

We appreciate the criticality of transparency about how businesses like ours, which deliver essential public services, are run. As a Board we have taken steps in the last year to provide those that are interested with additional information. This includes:

- Providing concise and clear summaries of our Business Plan at each stage of its development
- Publishing minutes of Board meetings
- Being transparent about our financial arrangements through the publication of 'Keeping it clear' and through providing information on our dividend policy, tax strategy, matters reserved for the Board and executive remuneration within this Annual Report
- Keeping our financial structure simple and UK based in the UK
- Reporting openly about our performance in this Annual Report and explaining our plans where we are not delivering the levels of service expected and continuing to produce a concise online version.

Further information is available below on how the Board continues to meet Ofwat's leadership, transparency and governance principles and how the Company is meeting its legal, statutory and regulatory obligations.

Leadership, transparency and governance

Meeting Ofwat's 2014 principles

The Company and its Board meets Ofwat's 2014 Board Leadership, Transparency and Governance principles. It does so by conducting itself in the highest standard that is expected of a provider of an essential public service. It applies best practice approaches in relation to transparency and governance as advised by the Financial Reporting Council and in doing so meets standards beyond what is legally required of a company of its size and structure. The table below provides further information on how each principle is being met.

Principle	How the Company is meeting it
Reporting must meet or exceed the standards set out in the Disclosure and Transparency Rules.	<p>The Company takes its responsibility to openness and transparency seriously. The information disclosed in this Annual Report, and its online version, and the additional performance and financial information available on our website aim to provide information in an assessable format.</p> <p>The disclosures made in this Annual Report meet the aims of the Disclosure and Transparency Rules.</p> <p>In addition, each customer receives an annual communication from us outlining aspects of performance.</p>
The regulated company must act as if it is a separate public listed company.	<p>The Board is instrumental in setting the direction of the Company including in the preparation of the Company's five-year Business Plan submitted to Ofwat in September 2018.</p> <p>Certain matters are reserved for the Board and delegated authority is granted to individual members or executive team members in a controlled manner. A detailed review of these reserved matters is provided in the Corporate governance section of this Annual Report on page 40.</p>
There must be significant independent representation on the Board.	<p>Independent non-executive directors are the largest group on the Board as shown on page 33 in the summary of directors and advisors.</p>
In line with best practice, Boards should have the appropriate balance of skills, experience, independence and knowledge of the Company.	<p>Board members come from a broad range of backgrounds and provide challenge and a different perspective. The Board's skills and experience is explained on pages 44 to 46 in the Corporate governance section. Board effectiveness is evaluated every two years and is discussed on page 46 in the Corporate governance report.</p>
The Chair must be independent of management and investors.	<p>As explained on page 38 of the Corporate governance report the chairman is not listed as independent because he was nominated by Sumitomo Corporation on its acquisition of the Company but the Board has continued to find him independent of character. The Chairman is serving his final three-year term of office and his successor will be independent of management and investors.</p>
Board committees, including but not limited to audit and remuneration committees, will operate at the regulated company level. There should be a majority of independent members on the audit and remuneration committees.	<p>All committees operate at the regulated company level. The committee reports on pages 50 to 63 show that the majority of members on each committee are independent non-executives and the Audit and Remuneration Committees are chaired by independent non-executive directors.</p> <p>Attendance is reported on page 46 of the Corporate governance report.</p>
The group structure must be explained in a way that is clear and simple to understand.	<p>The group structure is relatively simple and is explained clearly in a diagram on page 20 in the business overview. The ownership structure is also explained in 'Keeping it clear' the Company's guide to explain its finances and governance in a clear and understandable way.</p>

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Preparing for Ofwat's 2019 objectives

As noted above, the Board considers that it is exceeding the minimum requirements in Ofwat's 2014 principles on Board leadership, transparency and governance, and in doing so is already meeting Ofwat's updated objectives which came into force on 1 April 2019 as noted below.

Ofwat objective and underlying provisions	Board's view
<p>Purpose, values and culture - the regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves</p>	
<p>The Board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public services.</p>	<p>We have noted at the start of this annual Board statement the work that the Board promotes to ensure the Company's purpose, strategy and values are clearly established and adhered to throughout the company. Going forward, this focus on purpose and reflection of the role of the Board in defining such matters will continue to be considered at all Board meetings, and in particular at our separate Board Strategy Day discussions.</p>
<p>The Board makes sure that the company's strategy, values and cultures are consistent with its purposes.</p>	
<p>The Board monitors and assess values and culture to satisfy itself that behaviours throughout the business is aligned with the company's purpose. Where it finds misalignment, it takes corrective actions.</p>	
<p>Companies' annual reporting explains the Board's activities and any corrective actions taken. It also includes an annual statement from the Board focusing on how the company has set its aspirations and performed for all those it serves.</p>	<p>As noted in both our Corporate governance report, and within this statement, the Board's activities are clearly explained and we have already included this signed statement to explain the Board's focus on the Company's vision, aspirations and strategy.</p>
<p>Standalone regulated company - The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term</p>	
<p>The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable) and explains how these are consistent with the Board of the regulated company having full responsibility for all aspects of the regulated company's business; including the freedom to set, and accountability for, all aspects of the regulated company strategy.</p>	<p>We have expanded our disclosures in this year's Annual Report to be more transparent about matters reserved for the Board and how the Board of the regulated company has full responsibility for the regulated company's business. No matters are reserved solely for shareholders or other holding companies.</p>
<p>Board committees, including but not limited to audit, remuneration and nomination committees, report into the Board of the regulated company, with final decisions made at the level of the regulated company.</p>	<p>As noted in the Corporate governance report, all committees report into the Board of the regulated entity and final decisions are made at the regulated company level.</p>
<p>The Board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholding, and ensures that the influence of third parties does not compromise or override independent judgement.</p>	<p>Our Corporate governance report discusses in detail the focus of the regulatory company Board, and how Board matters are discussed and reviewed utilising the skills and objectivity of the entire Board, with no areas of judgement being compromised by the influence of third parties. This includes the Board's monitoring of directors' interests and potential transactions with associated companies.</p>

Ofwat objective and underlying provisions

Board's view

Board leadership and transparency – the Board leadership and approach to transparency and governance matters engenders trust in the regulated company and ensures accountability for their actions

Regulated companies should publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders.

We believe we have made significant progress in this area in recent publications and this Annual Report and there are more details below on current status and future areas of focus.

An explanation of group structure.

Included on page 20 of this Annual Report.

An explanation of dividend policies and dividends paid, and how these take into account remove of delivery for customers and other obligations (including to employees).

This is contained within the Directors' report in this Annual Report, although as noted in our PR19 Business Plan, we will be further enhancing the transparency around the decisions taken when implementing this dividend policy each year.

An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.

This is contained within the 'Managing our risks' section of this Annual Report.

The Annual Report includes details of Board and committee membership, number of times met, attendance at each meeting and where relevant the outcome of votes cast.

We have included these matters within our current Corporate governance and committee reports in the Annual Report, and we will consider further enhancements to transparency of key outcomes.

An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

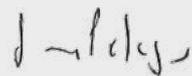
These matters relating to executive pay policy are included within our current Remuneration Committee report although – as noted in our PR19 Business Plan and the current Remuneration Committee report - further enhancements to linkage of executive pay and performance, and reporting of such matters, is being prepared for implementation from 1 April 2020 onwards.

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Ofwat objective and underlying provisions	Board's view
<p>Board structure and effectiveness – Board and their committees are competent, well run and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customers and stakeholder needs</p>	
<p>Board and Board committees have appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the Board room and how this need is addressed.</p>	<p>As noted in our Corporate governance and Nomination Committee reports, we believe that the Board and its committees have the appropriate balance of skills, experience and independence, together with knowledge of the Company and customer expectations.</p>
<p>Independent non-executive directors are the largest single group in the Board.</p>	<p>We adhere to this provision.</p>
<p>The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the Board and executive responsibility for running the business.</p>	<p>As noted in our Corporate governance report, while our chairman was not independent upon appointment, the Board has judged that he is independent in character and action, and there is explicit division of responsibilities.</p>
<p>There is an annual evaluation of the performance of the Board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met, the approach is reported in the annual report and any weaknesses are acted on and explained.</p>	<p>As described in our Corporate governance report, an evaluation of Board effectiveness is performed every two years which we believe is appropriate to a Company of our size. In the current year, this effectiveness review has been facilitated by an external party, which we will look to utilise in the future.</p>
<p>There is a formal, rigorous and transparent procedure for new appointments which is led by the Nomination Committee and supports the overarching objective.</p>	<p>We adhere to a rigorous appointment procedure for new directors as noted in our Nomination Committee report.</p>
<p>To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company Board to meet Ofwat ahead of a formal appointment being made.</p>	<p>We continue to apply this provision, with both of our recent non-executive director appointments meeting with Ofwat.</p>
<p>There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.</p>	<p>We adhere to this provision.</p>

Approved by the Board of Directors and signed on their behalf on 15 July 2019:



Jeremy Pelczer
Chairman



Anthony Ferrar
Managing director



Murray Legg
Senior non-executive director