

Certificate of adequacy including statement on sufficiency of financial resources and facilities

The directors certify that in their opinion:

- The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment)
- The Company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to enable it to carry out those activities
- All contracts entered into with an associated companies include all necessary provisions and requirements concerning the standard of services to be supplied by the Company, to ensure that it is able to meet its obligations as a water undertaker.

In providing this certificate, the directors have taken into account:

- Acceptance of the 2014 Final Determination by the Board
- A budget and capital expenditure programme for 2019/20 approved by the Board
- The committed borrowing and overdraft facilities available to the Company until 2020, of which £11.5 million is unutilised at 31 March 2019, together with recent completion of the renewal of the Company's five year revolving credit facility
- Cash balances of £18 million at 31 March 2019
- Experienced senior management team, with wide knowledge of the water industry, and a capable and motivated workforce
- Formal risk management and governance arrangements, monitored by the Audit Committee and Board.

Statement on sufficiency of non-financial resources

The directors confirm on page 36 of the Directors' report that as at 31 March 2019 the Company was in compliance with paragraph 3.1 of Condition K of its Instrument of Appointment, ensuring that the Company has sufficient rights and assets available to enable a special administrator to run the business.

Risk and compliance statement

The Company provides an essential service to its customers. The quality and availability of water are our customers' highest priorities. To ensure a continued supply of high quality drinking water we are required to meet a number of regulatory and legal obligations.

The directors confirm that in their opinion the Company:

- Has a full understanding of all its relevant statutory, licence and regulatory obligations
- Is meeting all its relevant statutory, licence and regulatory obligations
- Has taken steps to understand and meet the expectations of its customers
- Has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations
- Has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

In preparing the statements above the directors note that:

Statutory, licence and regulatory obligations

- The Company has a Compliance Code in place (available on its website and distributed to all employees) which is reviewed annually and an internal audit is carried out to confirm compliance, including compliance with the requirement to trade with associates at arm's length
- Assurance has been provided that the Company has available to it sufficient financial and non-financial resources, as per the requirement in the Company's Instrument of Appointment
- The Company's regulatory accounts confirm that the Company maintains an investment grade credit rating
- Required regulatory disclosures have been made below
- The independent auditor's report from KPMG LLP (available on pages 65 to 69) confirms that the strategic and directors' reports, included within this Annual Report, have been prepared in accordance with the Companies Act 2006 and the information contained within them is consistent with the financial statements.

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Expectations of customers

- The Board receives reports on feedback from customers. The Company has talked directly to customers about their views on Company performance both now and what they want to see in the future through our online community, a regular telephone and online survey, targeted engagement for our Business Plan development, through our education activity and through daily contact with customers both over the phone and out in the field
- The Company has also continued to engage with a range of stakeholders impacted by its activity at a community, regional and national level
- The Company is delivering its five-year plan built around the five aims described in our performance report which reflect customers' expectations to maintain or improve levels of service
- Over the year the majority of our commitments under the five aims in our business plan have been met as summarised on pages 22 to 23:
- The Board meets regularly to review Company performance and receives monthly performance information, enabling it to challenge the executive team
- The Company has a Customer Scrutiny Panel whose duties include advising, scrutinising and challenging the Company in its development of plans for meeting their customers' priorities, including encouraging the Company to consider the environment and wider society in a customer context and the panel's activity over the year is reported on pages 98 to 99
- The Company's technical advisor, Mott MacDonald, has provided a statement, available on the Company's website, on the Company's compliance with its requirements on reporting of performance and cost assessment data in this Annual Report.

Processes and systems of control

- The Company operates a system of internal control, described on page 46 of the Corporate governance report statement, that meets the requirements of the UK Corporate Governance Code
- Reporting processes are accredited to the International Standard ISO 9001:2015 Quality Management System standard
- The Company's annual assurance plan follows the requirements of Ofwat's Company Monitoring Framework and is available on the Company's website.

Identifying, managing and mitigating risks

- Risk management is embedded in the Company culture and the monitoring and control systems in place include a twice-yearly review of risks and mitigating actions by the Audit Committee
- Consideration of the financial and operational impact of a range of severe but plausible risks is carried out by the Audit Committee with the current risks and mitigations described on pages 28 and 29 of the strategic report
- The Board is aware of its obligation to highlight any material emerging or existing risks to Ofwat in a timely manner
- The financial and operational viability of the Company out to 2030 has been considered and is described in the long-term viability statement on page 48 in the Corporate governance report.

Additional regulatory disclosures

The remuneration policy of directors and how this was applied in the year to 31 March 2019 is explained on page 59 in the Remuneration Committee report.

Each director confirms on page 36 in the Directors' report that the requirement in relation to provision of information to the Company's auditor has been met.

The dividend policy for the appointed business and how it has been applied is outlined in the directors' report on page 35.

The tax strategy for the appointed business is the same as the strategy outlined for the Company on page 47 in the Corporate governance report.

The long-term viability statement is included in the corporate governance report on page 48.

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



Jeremy Pelczer
Chairman



Anthony Ferrar
Managing director



Murray Legg
Chairman of the Audit Committee

Statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the directors to:

- a.) Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and systems of planning and internal control for the next 12 months. The directors have issued a certificate under Condition I of the Licence - see pages 95 to 96.
- b.) Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water undertaker. The directors have issued a certificate under Condition I of the Licence - see pages 95 to 96.
- c.) Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities. The directors hereby confirm that there were no changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities, during the year ended 31 March 2019.
- d.) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length. This has been confirmed within 'Information in respect of transactions with any other business or activity of the appointee or any associated company' on page 134.
- e.) Keep proper accounting records, which comply with Condition F. The directors of the company hereby confirm that the company has kept proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the Sutton and East Surrey Water plc statutory financial statements.

In addition, paragraph 3.1 of Condition K of the Instrument of Appointment requires directors to confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company.

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K at the end of the financial year and this has been confirmed in the certificate on pages 95 to 96 of the regulatory accounts.

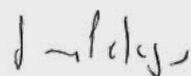
Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant information of which the company's auditor is unaware; and
2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

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



Jeremy Pelczer
Chairman



Anthony Ferrar
Managing director



Murray Legg
Chairman of the Audit Committee