



Our Business Plan for 2020 - 2025  
Board Assurance Statement  
September 2018

# 1 Board Assurance Statement

A message from our Chairman, Tony Cocker



It is a privilege to lead the Board of Affinity Water as we put forward our plans to continue to supply high quality and resilient services to our customers and communities for the period 2020 to 2025 and beyond. As we have developed this Plan through our discussions at the Board and with Executives, I have also personally listened to customers, met with stakeholders, and talked with our front line staff, so that I have a first-hand feel for some of their views, expectations and challenges.

At the heart of what we do, all day, every day, is supplying high quality drinking water to 3.6 million people and businesses in the south-east of England. We play a critical role in supporting economic and housing growth in one of the most economically active areas of the UK. We are also custodians of a precious resource and understand that our ability to continue to supply high quality drinking water to customers is dependent on having a healthy and resilient environment to abstract that water from.

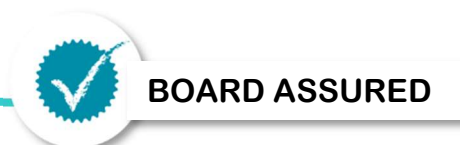
As the provider of an essential public service, I am acutely aware of the trust placed in Affinity Water by all those we serve. We must therefore be accountable not only for what we do but also how we do it. As Chairman, I will continue to lead the Board in ensuring that Affinity Water is effectively governed, and that our values and culture live up to the expectations of our customers, communities and stakeholders. We have made a number of improvements this year and will continue to do so. We have included information about our governance in this Chapter to provide assurance in this respect.

I will also lead the Board in monitoring and overseeing the delivery of this Business Plan, with the leadership team, to ensure that we do all that we can to secure the long-term resilience of water supplies for our communities and the wider region and continue to deliver great service to our customers and communities at a fair price for all.

As a Board, we have worked hard to make this Business Plan the best that it can be and we have set out in this Chapter how we have assured ourselves that this is the case.

A handwritten signature in black ink that reads "Tony Cocker".

*Tony Cocker*  
**Chairman**



## 1.1 Introduction

1. In this Statement, as a Board, we set out how we are governed, how we have effectively overseen and led the preparation of this Business Plan, and how we have assured ourselves that our Plan is of high quality and delivers for customers, communities and the environment, in AMP7 and the long-term. We also set out how we will oversee and monitor the delivery of this Plan.
2. Over the course of AMP5, the need was recognised to improve the customer, operational and financial performance of the business to meet the expectation of customers, regulators and other stakeholders. A vision was conceived, and our community strategy developed, to support short-term and long-term performance improvement and to establish an organisation that was fit to meet its regulatory outputs for AMP5 and capable of adapting to the new challenges of AMP6 and beyond. At PR14 our ambitious plan was classified as enhanced by Ofwat and acknowledged to be challenging. We have met that challenge in most areas in AMP6 to date.
3. Since then, we have experienced significant changes in the ownership and leadership of Affinity Water, including:
  - the 2012 sale of our business by Veolia Environnement to a consortium led by Morgan Stanley and Infracapital Partners;
  - their sale of the business in 2017 to a consortium of long term investors comprising DIF, Allianz Capital Partners and HICL (advised by InfraRed Capital Partners). The consortium has a long-term investment horizon, aligned with the company's community vision, and customer and stakeholder priorities;
  - the appointment in early 2013 of an independent chairman, Dr Philip Nolan, who led the Board through PR14 and the first half of AMP6, before handing over to Tony Cocker in January 2018; and
  - changes in the executive leadership of the business, with Simon Cocks serving as Chief Executive Officer between 2015 and 2018, before handing over to Pauline Walsh in May 2018.
4. Notwithstanding these changes in ownership and leadership, the vision and strategy for a community focused business have remained constant. Our owners, Chairman, CEO and this Board strongly support the vision and strategy and are looking forward to delivering further stretching performance for customers in AMP7 and to demonstrating leadership on the long-term strategic priorities for the sector.

## 1.2 Board Leadership, Governance and Transparency

### 1.2.1 Our Board of Directors

1. Our Board comprises: a non-executive chairman, who is independent; four independent non-executive directors; two executive directors; three non-executive directors who are affiliated to shareholders, therefore not independent; and one non-executive director who was formerly an executive director and is therefore not independent.

Director	Role	Appointment Date	Independent (Y/N)
Tony Cocker	Chairman (non-executive)	15 January 2018	Y
Pauline Walsh	Chief Executive Officer	1 May 2018	N
Stuart Ledger	Chief Financial Officer	9 October 2017	N
Patrick O'D Bourke	Non-executive	24 July 2013	Y
Chris Bolt	Non-executive	26 February 2015	Y
Trevor Didcock	Non-executive	30 November 2015	Y
Susan Hooper	Non-executive	30 November 2015	Y
Jaroslava Korpanec	Non-executive	19 May 2017	N
Angela Roshier	Non-executive	19 May 2017	N
Tony Roper	Non-executive	25 July 2018	N
Simon Cocks	Non-executive	1 June 2015 (Chief Executive Officer) and 22 May 2018 (non-executive)	N

2. We believe that the Board has the appropriate balance of skills, experience, independence and knowledge to enable us to discharge effectively both our legal duties as directors and the Company's statutory and regulatory obligations. Our biographies are published on our website and in our Annual Report.
3. Our combined, extensive professional experiences in senior roles across regulated utilities and other infrastructure business, as well as in finance, customer-facing and operational roles, provide a wide range of skills and experiences to ensure a diversity of perspective that helps promote the Company's long-term success.

### 1.3 Governance and Transparency

1. We recognise the importance of demonstrating to customers, communities, regulators and other stakeholders that we operate to the highest standards of governance and transparency.
2. As required by our licence, we operate our business as if it were a separate listed company:
  - having regard to the principles of good governance of the UK Corporate Governance Code; and
  - meeting the principles and provisions of Ofwat's publication: Board leadership, transparency and governance – principles (January 2014). We support the updated principles for regulated companies and holding companies published for consultation in July 2018.
3. Our independent directors (including the Chairman) are the largest single grouping on the Board. This is consistent with Ofwat's current and future proposed governance principles.

No single director or group of directors can dominate the Board's decision-making because:

- no investor has a majority of voting rights and none of the shareholder directors is individually able to veto board decisions; and
- there is no arrangement between shareholders as to how to vote on certain matters; directors appointed by shareholders act independently of those appointed by the other shareholders.

### **1.3.1 Board Leadership**

1. Our Board is led by our Chairman, Tony Cocker, who was appointed Chairman on 30 January 2018. He is independent and does not hold any other directorships in the Affinity Water group. The roles of Chairman and Chief Executive Officer are separate, set out in writing and agreed by the Board.
2. Pauline Walsh, as Chief Executive Officer, is responsible to the Board for managing the business from day to day in an efficient, economical and effective manner. She was appointed on 1 May 2018 and is responsible for implementing the Board's decisions and for those matters we have delegated to her.
3. Our role as a Board is to lead and control the Company and to set strategy, objectives and major plans to make the business successful. As directors, we are also responsible for ensuring that the Company has competent, prudent and effective executive management and that all necessary management systems, processes and controls are in place and are working effectively.
4. We normally meet monthly as a Board and we have reserved to ourselves certain key matters such as strategy and the approval of key regulatory submissions such as the Business Plan, Water Resources Management Plan and our annual reporting.
5. Our Board is made up of directors with key relevant skills and experiences, who can challenge and support the executive management team and focus on customer, operational, regulatory and sector priorities. We wish to make some further improvements, including appointing a Senior Independent Non-Executive Director and ensuring that at least half our Board (excluding the Chairman) are independent. We plan to undertake periodic externally-facilitated board effectiveness reviews to help us meet customer, regulatory and sector priorities.

### **1.3.2 Independence**

1. We consider Tony Cocker, Patrick O'D Bourke, Chris Bolt, Trevor Didcock and Susan Hooper to be independent, having taken account of the criteria for determining independence in the UK Corporate Governance Code.
2. Each director understands his or her duty to exercise independent judgment and, in discharging his or her duties, to have regard to customers, the long-term consequences of decisions and the Company maintaining a reputation for high standards of conduct.

### **1.3.3 Conflicts of Interest**

1. We have adopted a policy for the declaration and management of conflicts of interest. Where potential conflict exists between the interests of the Company as a water undertaker and those of other companies in the group, each director is obliged to have regard exclusively to the interests of the Company as a water undertaker.
2. As Directors, we do not vote on (nor are counted in a quorum for) any resolution relating to a proposed or existing contract or arrangement or any other proposal (including dividends) in which we have an interest by virtue of other directorships.

### 1.3.4 Board Committees

1. We have established an Audit Committee, Remuneration Committee, Nomination Committee and Community Committee to help us discharge our responsibilities as a Board. Membership is shown in the table below.

Audit Committee	Remuneration Committee	Nomination Committee	Community Committee
Patrick O'D Bourke (Chair)	Susan Hooper (Chair)	Tony Cocker (Chair)	Tony Cocker (Chair)
Chris Bolt	Chris Bolt	Patrick O'D Bourke	Trevor Didcock
Trevor Didcock	Tony Cocker	Susan Hooper	Susan Hooper
Angela Roshier	Angela Roshier	Jaroslava Korpanec	Pauline Walsh
Tony Roper	Jaroslava Korpanec	Tony Roper	Simon Cocks
			Angela Roshier

2. Membership of the Audit Committee, Remuneration Committee and Nomination Committee meets Ofwat's principle for directors that the Board considers to be independent to be the majority.

## 1.4 Our Owners

### 1.4.1 Ownership

1. We recognise it is essential for trust and confidence that we are transparent with our customers, communities and stakeholders about the ownership of our business. In May 2017, the Affinity Water group was acquired by a consortium of long-term investors in infrastructure and regulated utilities comprising DIF, Allianz Capital Partners and HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited).
2. The consortium makes its investment through Daiwater Investment Limited, Affinity Water's holding company. The effective equity interests in the Affinity Water group are shown in the table below.

Allianz Capital Partners on behalf of the Allianz Group	36.6%
DIF	26.8%
HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited)	33.2%
Group of co-investors comprising UK local authority pension funds (advised by InfraRed Capital Partners Limited)	3.4%

3. Our owners' groups are global fund managers and insurance companies with strong track records of investing in and managing public sector and regulated projects. Each of our owners' groups invest globally in the equity of essential, long-lived and capital-intensive infrastructure assets that meet the world's utility, transport and energy needs.
4. ACP is Allianz's in-house asset manager for alternative investments of the Allianz Group, focusing on investments across infrastructure, renewables and private equity. It is a long-term, buy-and-hold investor seeking to generate returns through cash yields rather than exits. Its investment strategy focuses on investments that provide essential services to the public. ACP manages EUR 6.9bn of infrastructure assets across the gas, electricity, transportation and environmental sectors, including the Thames Tideway Tunnel, Cadent and Porterbrook in the UK."
5. DIF has invested in and manages more than 150 infrastructure and renewable energy projects. In the UK, DIF has invested in and manages 32 infrastructure projects, regulated assets and renewable energy projects. The projects include investments in the following sectors: waste water, transport, defence, street lighting, accommodation, healthcare, education, leisure, solar and wind. DIF has invested in a number of major infrastructure projects, which include investments in Thames Tideway Tunnel and Thyssengas, a regulated gas pipeline in Germany.
6. HICL was the first UK-listed infrastructure investment company. Its original portfolio of 15 predominantly-UK projects has increased to 115 investments across seven international markets. HICL and its project supply chain contractors work to deliver successful projects for public sector clients across six sectors. HICL is advised by InfraRed Capital Partners which operates worldwide, managing investment across the spectrum from financing and building new 'greenfield' infrastructure to buying and managing 'brownfield' operational infrastructure assets.

#### 1.4.2 Decision-making and Shareholder Reserved Matters

1. We have regular interaction with our shareholders to appraise them of the performance of the business and any key decisions we need to make. Our shareholders respect the primacy of the Board and the requirements of Conditions F, K and P of our Instrument of Appointment regarding the ring-fencing of our business.
2. Our shareholders have asked that we seek their approval as shareholders for a limited number of strategic matters, consistent with those matters reserved for shareholder approval in a company whose equity shares are listed on the London Stock Exchange. These matters relate to our capital structure and financing arrangements, acquisitions and disposals, business lines, directors' remuneration, material commitments, litigation and regulatory submissions, appointment of auditors, accounting and tax matters and insolvency. Further detail is set out in our publication: *Engaging with our Shareholders*, published on our website. We discuss these matters with our shareholders when they arise, and would seek their approval where this is required by company law.

### **1.4.3 Group Structure**

1. The structure of the Affinity Water group of companies together with an explanation of the purpose of each company are set out in our Annual Report and published on our website. We recognise that, following our change of ownership, the structure is more complex than is now necessary and we are taking steps to simplify it. We will report our progress on simplification in our next Annual Report.
2. All companies in the Affinity Water group are incorporated and registered in England and Wales, except for Affinity Water Programme Finance Limited, which is incorporated in the Cayman Islands. It should be noted that:
  - Affinity Water Programme Finance Limited raises money to finance our investments and operations through the issue of bonds listed on the London Stock Exchange and is resident in the UK for tax purposes. Its incorporation outside the UK brings no tax benefit and UK tax is not avoided
  - We consider it in the interests of customers and wider stakeholders to remove this entity from our financing structure. On 23 August 2018, we announced our intention to replace Affinity Water Programme Finance Limited with a UK issuer and are actively seeking to do so by the end of 2018.

## **1.5 Taking Accountability for AMP6 Performance**

1. At PR14, we set ourselves very challenging performance commitments for AMP6 to meet the expectations of our customers, regulators and other stakeholders with respect to the service we provide. We have closely monitored performance against these commitments and have performed well overall to date in meeting their expectations. Our AMP6 plan included some of the biggest reductions in leakage, demand and water abstraction of any company in the industry and we have met these performance commitments through the first three years of AMP6.
2. We recognise that our performance on supply interruptions greater than 12 hours has fallen short of the commitment we made and we continue to challenge and monitor the robustness of management's plans to meet this performance commitment for the remainder of AMP6.
3. We further recognise that we have continued to rank in the lower quartile for performance against the Service Incentive Mechanism. We have taken a close interest in the customer experience improvement plans developed by management and we continue to challenge them to make further improvements.
4. We continue to monitor the progress of the business in meeting all our performance commitments and our legal and regulatory obligations, and we oversee and challenge management's plans to achieve them.
5. This active oversight of performance, supported by third party assurance, gives us confidence that the business is meeting and will meet the targets set. Accordingly, we confirm the accuracy and completeness of our AMP6 performance to date as set out in this Business Plan.

## **1.6 Leading the Development of this Business Plan**

### **1.6.1 Leadership and Business Planning**

1. We are, and have been, fully engaged in the design, development and preparation of this Business Plan. We own the strategy and our regular formal meetings as a Board have



allowed us to lead and provide strategic direction to management, to scrutinise and inform their proposals and to hear the voice of our customers and stakeholders through our engagement programme. We have supplemented our regular meetings with a number of PR19-specific Board meetings and also established a regulatory working group, comprising executives, non-executive and independent non-executive directors to support our oversight, scrutiny and challenge of this Business Plan.

2. Our Audit Committee, Community Committee and Remuneration Committee, have also taken leading roles in the development of this Plan. In particular our Audit Committee has:
  - scrutinised and informed the scope of the PR19 assurance programme and approved the appointment of PricewaterhouseCoopers LLP and Atkins Limited to provide strategic and technical assurance as well as assurance of our data tables and commentaries submissions;
  - reviewed, challenged and approved the methodology for assuring the accuracy and quality of our data tables and commentaries submissions;
  - reviewed and challenged the process for assuring the accuracy and quality of the PR14 reconciliation data tables and commentaries and approved the submission;
  - reviewed third party assurance reports on the 3 September data tables and commentaries provided by PricewaterhouseCoopers LLP, Atkins Limited and ChandlerKBS and a report from Frontier Economics Limited providing assurance on the Outcome Delivery Incentives; and
  - reviewed and approved the Water Industry Strategic Environmental Requirements (WISER) submission to the Environment Agency.
  
3. Our **Community Committee** has reviewed the progress we have made in AMP6 against the community commitments in our PR14 Business Plan and has reviewed and influenced the community strategy we have set for AMP7 within this Business Plan.
  
4. Our **Remuneration Committee** has comprehensively overhauled our executive remuneration policy to equally incentivise delivery of stretching performance for customers and stretching financial performance, and to provide safeguards where stretching customer measures are not met. As a Board, we have considered the policy and are satisfied it appropriately links performance related executive pay with stretching delivery for customers.
  
5. The table below shows the meetings from July 2017 onwards where the strategy for and development of this Business Plan were significant or, in most cases, the sole agenda item.

Board	Audit Committee	Remuneration Committee	Community Committee	Regulatory Working Group
8	3	1	2	15

### 1.6.2 Assurance

1. We have overseen the assurance programme for this Business Plan developed by management and supported by external specialist providers. We describe more fully the specific governance and assurance framework established for the preparation of this Business Plan in Appendix 11. Our approach to assurance of this Business Plan has been consistent with our latest published Assurance Plan.
  
2. We have derived assurance of the quality and accuracy of the data in this Business Plan from the “three lines of defence” model. Subject to any limitations identified in the data table commentaries and third-party assurance reports, we are satisfied as to the accuracy,

completeness and quality of the data, estimates and forecasts provided in our Business Plan.

3. Pricewaterhouse Coopers LLP was retained to provide strategic assurance of our Business Plan and have reported to us their findings under their strategic assessment framework. We have also obtained technical assurance from Atkins Limited with respect to our investment programme, performance commitments and outcome delivery incentives. Frontier Economics Limited has provided assurance with respect to our outcome delivery incentives. We have carefully considered their respective findings and, subject to any limitations in their reports, we are satisfied that: this Plan is of high quality, stretching and deliverable; our investment programme has been prepared appropriately and is aligned to our outcomes and performance commitments; and that our outcome delivery incentives have been appropriately set.

### **1.6.3 Compliance with statutory and licence obligations**

1. We have considered the Company's key statutory and licence obligations to assure ourselves that the Business Plan will enable those obligations to be met in the short and long term, Appendix 11 shows how our key statutory obligations link to our outcomes and performance commitments and the *Atkins Limited PR19 Assurance Report* sets out how the investment programme links to our performance commitments. We are satisfied there is a clear line of sight from our statutory obligations, through our outcomes, to our performance commitments and investment programme.
2. Our Audit Committee reviewed the report to the Environment Agency and Natural England on the actions and investments within our Business Plan to meet the Water Industry Strategic Environmental Requirements (WISER), providing assurance that our Business Plan includes the investments for the delivery of "green" and "amber" schemes in the Water Industry National Environment Programme (WINEP3).

### **1.6.4 Alignment with our water resources management plan**

1. As a Board, we recognise the need to provide certainty that this Business Plan includes the investments in our revised draft water resources management plan that we need to make in AMP7. Our Business Plan investment programme comprises:
  - the investments included in our draft water resources management plan "Alternative Plan", consulted upon in March 2018, and for which there was clear support from consultees; and
  - two further investments relating to strategic supply transfer schemes and investment in preparing for delivery of the Upper Thames Reservoir (brought forward from 2039 to 2037) where representations have identified clear customer and stakeholder support for this further investment.
2. We are proposing to undertake re-consultation to present to stakeholders a consolidated revised water resources management plan reflecting the Alternative Plan consulted upon and these two further investments included in response to representations received (our revised draft water resources management plan or "rdWRMP").
3. We can therefore provide assurance that our Business Plan is aligned with our rdWRMP as all of the AMP7 investment in our rdWRMP was already included in the Alternative Plan, or has been added to the rdWRMP in response to representations received during the statutory consultation. Accordingly, we do not envisage there will be any change to the investment programme included in the Business Plan for AMP7.

### **1.6.5 Customer engagement**

1. We reviewed and challenged the strategy for customer engagement at the outset of the engagement programme and have been regularly appraised by management of customer feedback, and how this has informed our Plan. We have met as a Board with the Chair of our Customer Challenge Group, Teresa Perchard, on a number of occasions and discussed the CCG's assessment of our programme through its challenge framework. A number of us have attended CCG meetings and observed customer engagement events which have helped us to understand better what matters to customers. On the basis of these activities, we can be satisfied that the Plan has been informed by customer engagement.

### **1.6.6 Affordability and customers in vulnerable circumstances**

1. We know that bills need to be affordable for our customers in AMP7 and the longer term. As a Board, we have scrutinised management's investment and expenditure proposals for AMP7 and set our business a challenging efficiency target to minimise the increase in bills during AMP7. Our financial resilience has allowed us to reduce the pay as you go ratio in AMP7 to reduce the impact of our ambitious Plan in AMP7, while maintaining a fair balance with affordability in the longer term.
2. We are satisfied from research that the small increase in average bills over AMP7 will represent a declining share of our customers' projected disposable income (allowing for housing costs) over that period. We are assured that there is a high level of customer acceptability for the increase. We also note that, before inflation, average bills in 2024/25 will be lower than average bills in 2014/15.
3. For those of our customers least able to pay, we are satisfied that the planned 25% increase in the number of customers benefiting from our social tariff by the end of AMP7, together with the customer assistance fund we are establishing, represent appropriate assistance for those struggling, or at risk of struggling, to pay their bills.
4. We also know that we need to provide a fully inclusive service which enables customers in vulnerable circumstances to experience a smooth and simple service from us, and enables us to help customers with vulnerabilities if there are issues with water supply (e.g. in cases of interruption to service). We are satisfied that our proposed performance commitments and plans for vulnerable customer support (including our Priority Services Register) will achieve this.

### **1.6.7 Outcomes, Performance Commitments and ODIs**

1. Throughout the development of this Business Plan, we have kept ourselves appraised of customers' views and priorities to ensure that our Plan is informed by those views and priorities and will deliver what customers most want. We are clear that our package of outcomes and performance commitments and outcome delivery incentives reflects customer preferences and is stretching. We have reviewed third party assurance of our outcome delivery incentives and are satisfied that the package falls within the RORE range set by Ofwat.
2. As a Board, we will monitor delivery of our performance commitments through our regular meetings and challenge management to ensure that our delivery plans are the best they can be. We will take ownership for reporting how well we are doing, building on the approach we have taken in AMP6 to report performance regularly at a community level.
3. We recognise it is essential that the information we report on our performance commitments is reliable and robust and, in the case of the common performance

commitments, prepared on a consistent basis with other companies. Our Audit Committee will continue to take a leading role in assuring that this is the case.

### **1.6.8 Resilience**

1. We have reviewed an independent, robust and systematic assessment of the company's systems and services from the perspective of operational, corporate and financial resilience. We have noted the strengths identified by the assessment in relation to: governance and assurance processes; risk management; business continuity planning; our collaborative and long-term approach to water resources management planning; and the robust stress and scenario tests we undertake to assess financial viability.
2. We have discussed opportunities for enhancement identified by the assessment with respect to: development of long-term strategic direction in the face of resilience challenges; further enhancing our community-focused approach to deliver further resilience for the company, customers and the environment; embedding our data strategy to inform short-term emergency decisions and strategic financial and investment planning for the longer term.
3. In addition to the independent assessment, we have as a Board, reviewed the financial resilience of the business and appraised ourselves of the actions planned for the remainder of AMP6 and AMP7 to enhance resilience in the areas of long term financial planning, ongoing financial reporting, maintaining our credit rating, operating a robust and efficient financing strategy, long term financial viability and our defined benefit pension scheme.
4. Through these steps we have been able to satisfy ourselves that the activities and interventions in our Business Plan with respect to operational, corporate and financial resilience will deliver long term resilience in customers' long-term interests.

### **1.6.9 Cost Assessment**

1. As a Board overall, and through our Audit Committee, we have reviewed the expenditure forecasts included in the Business Plan to satisfy ourselves that they are robust, reliable and efficient, taking account of benchmarked cost data. In this regard, we have taken into account the Atkins Limited PR19 Assurance Report and benchmarking information provided by Oxera. We have challenged management about their plans to achieve the operating and capital cost efficiencies within the Business Plan so that we are assured they are both stretching and deliverable.
2. We have reviewed how the wholesale investment programme has been developed and the process by which options have been assessed. We have reviewed the scope and deliverability of the investment programme and, where uncertainties in scope or cost have been identified by our assurance providers, we have satisfied ourselves that those risks and uncertainties are appropriate and that the relevant investment remains the best one for customers.

### **1.6.10 Innovation and markets**

1. We are committed to the Company's use of markets where they produce better outcomes for customers and the environment. Our Bid Assessment Framework makes clear our ambition to be at the frontier in promoting innovative methods and models to drive efficiency in the provision of services relating to water resources, demand management and leakage services in the increasingly water scarce south-east of England. It includes an illustrative example of how we could use the non-household retail market to drive lower consumption, which could in turn optimise water trading arrangements and, because of

the nationwide reach of retailers, could lead to the “cascading” of water from those areas that have a surplus of water to those in deficit.

#### **1.6.11 Risk**

1. We have considered carefully whether our Business Plan represents an appropriate balance of risk between our investors and customers. We acknowledge that the regulatory framework provides a number of significant protections for companies with respect to revenue and costs. As a Board, we have taken steps to appraise ourselves of the risks associated with delivering our Plan and reviewed and challenged the work undertaken by management to mitigate those risks. We are satisfied that management’s risk and mitigation plans are appropriate.
2. We are clear that delivery of the Business Plan will be stretching, with significant cost efficiencies needing to be achieved to facilitate a fair return to our investors. We have identified two specific risks (potential investment in treatment for metaldehyde and a potential sustainability reduction in our Brett Region) where we consider uncertainty is such that additional protection is needed to maintain an appropriate balance between customers and investors. Our Business Plan includes bespoke uncertainty mechanisms for these two risks, such that there would be an adjustment made at PR24 in respect of costs incurred by the Company during AMP7. We are satisfied that management has taken all appropriate action to mitigate these risks and has considered a range of approaches in respect of the potential impacts of these uncertainties.

#### **1.6.12 Financeability**

1. As a Board, we have taken steps to satisfy ourselves that the Plan is financeable on both a notional and actual capital structure basis and that the plan protects customers in the short and long term. Through our Audit Committee, and as a Board, we monitor the financeability of the Company on an ongoing basis.
2. For this Business Plan, we have reviewed the resilience of the appointed business to the eight stress tests set within the PR19 methodology and are satisfied that, even if no remedial actions were taken, the appointed business remains viable for each of the stress scenarios.
3. We have also reviewed the resilience of the Company over AMP7 to the stress tests used for financial reporting and are satisfied that Company remains viable for each of these stress scenarios. Our Audit Committee determines appropriate stress scenarios for testing.

#### **1.6.13 Dividend Policy**

1. We have approved a Dividend Policy that provides for dividends commensurate with long-term returns and the performance of the business. It allows shareholders to earn an appropriate return from their investment, whilst not impairing the Company’s longer term financeability, and takes into account commitments to our stakeholders and customers. Under the policy, we will also test any proposed dividend payments against legal and regulatory requirements and restrictions, including the management of economic risk and compliance with financial covenants.

### **1.7 Summary**

1. We have reviewed successive drafts of this Business Plan to ensure that it effectively conveys the challenges our business faces, how we are placing customers at the heart of our future plans through our outcomes, performance commitments and outcome delivery incentives and how it provides resilience in the round and affordable bills for customers

today, balanced with an appropriate level of investment for the future. We have challenged management's proposals and, where appropriate, mandated changes to those proposals.

2. We believe that this combination of personal and collective Board leadership and the comprehensive external assurance programme we have instigated demonstrates our commitment to producing a well evidenced Business Plan of the highest quality. We are satisfied that:
  - all the elements of this Business Plan add up to a business plan that is of high quality, stretching and deliverable;
  - the overall strategy for data assurance and governance processes has delivered data which is high quality;
  - this Business Plan will allow the Company to meet its statutory and licence obligations, now and in the future, taking account of the UK Government's strategic policy statement;
  - this Business Plan will deliver operational, financial and corporate resilience over AMP7 and the long term through our governance and assurance processes, taking account of our track record of performance; and
  - this Business Plan will enable customers' trust and confidence through high levels of transparency and engagement on issues such as governance, transparency and the resilience of our corporate and financial structure.

Handwritten signature of Tony Cocker in black ink.

**Tony Cocker**  
Chairman

Handwritten signature of Pauline Walsh in black ink.

**Pauline Walsh**  
Chief Executive Officer

Handwritten signature of Stuart Ledger in black ink.

**Stuart Ledger**  
Chief Financial Officer

Handwritten signature of Chris Bolt in black ink.

**Chris Bolt**  
Independent non-executive director

Handwritten signature of Patrick O'D Bourke in blue ink.

**Patrick O'D Bourke**  
Independent non-executive director

Handwritten signature of Trevor Didcock in black ink.

**Trevor Didcock**  
Independent non-executive director

Handwritten signature of Susan Hooper in black ink.

**Susan Hooper**  
Independent non-executive director

Handwritten signature of Simon Cocks in blue ink.

**Simon Cocks**  
Non-executive director

Handwritten signature of Jaroslava Korpanec in blue ink.

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Non-executive director

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**Angela Roshier**  
Non-executive director