

# Keeping it clear

A guide to how we are owned,  
run and financed

2022/23



# At a glance...

51p

On average, our customers currently pay just over 51p a day for their water services.

In light of the current cost of living issues, we have stepped up our assistance programmes for our most economically vulnerable customers.



We are financed through a combination of debt and shareholder equity.

Like any investors, our shareholders expect a return on the money they put into our business but these dividends are not guaranteed – our Board first considers how well we have delivered for our customers. Our dividends continue to be consistent with the level of return that Ofwat has indicated as reasonable.



We closely monitor the financial resilience of our business in the long-term, ensuring we operate efficiently, invest wisely in capital projects and maintain a financial structure that allows us to manage any unexpected financial 'shocks'.

We have never operated any complex, international financing arrangements and our holding company is based in the UK, paying corporation tax to the UK Government.



Independent non-executive directors make up the biggest group on our Board, providing targeted challenge and support in their areas of expertise.

We are a water-only company that is not involved in any aspects of collecting or treating wastewater or sewage. Our customers' wastewater is managed by either Thames Water or Southern Water.



Welcome to the latest edition of 'Keeping it clear', which we are pleased to provide as an easy-to-follow guide on our finances, company structure and how we make decisions.

This summary explains our bills and clearly sets out how we are organised and governed, so you can gain a good understanding of how we are owned and run, where we spend our money and the dividends and taxes we pay.

Each year Ofwat our regulator reviews our Annual Performance Report and key policies and provides us (alongside the rest of the industry) feedback on any key observations or concerns. Ofwat addressed two key areas of dividends and financial resilience. On dividends Ofwat expect (as we do) that dividends need to be linked to service delivery for both customers and the environment. We set out in our dividend policy each year how we ensure that we assess and pay dividends on all aspects of performance across the business.

Ofwat also shared their observations on enhancing our Long-Term Viability Statement, a look ahead to make sure we continue to remain a viable company. We are confident with the backing of our shareholders and our financing plans in place that even through difficult economic situations we have the financial resilience to continue to operate efficiently and effectively.

Our relationship with our regulator remains strong and positive. Our goal is to provide timely, accurate and easy to understand information to inform our customers and stakeholders of how we are performing. This document is an example of how we try to do that.

**Paul Kerr**  
Group Chief Financial Officer



# Customer bills

## We keep our bills low by:

- **Operating efficiently** – we will continue to buy services and goods as economically as possible in these times of rising prices, while also optimising our energy use and making other efficiencies across our operations. Specifically with respect to energy prices, our proactive strategy to lock in cheaper energy prices in prior years has protected our customers from recent energy price increases
- **Financing efficiently** – while as a small company we can't access debt financing as cheaply as the larger water companies, raising debt as efficiently as we can means lower costs to be borne by us and our customers. However, as with many companies in the last year, we continue to be adversely impacted by high inflation escalating many supply chain costs, including the costs of chemicals and labour, together with our financing costs.
- **Growth in our customer base** – as more homes are connected to our network the costs will be spread across more customers which helps lower bills in the long-term
- **Providing extra support** – we provide several payment support schemes to help those who genuinely can't afford to pay their bill. These include: 'Breathing Space', a payment pause scheme, 'Water Support', a 50% reduction on some bills, and 'WaterSure', a capped tariff for metered customers

## We also receive income from:

**Water retailers** who pay us for the water supplied to their business customers who they provide billing and customer services to.

**Housing developers** who pay us to lay new pipes and connect new homes to our network.

**Non-appointed income** which is money we receive from other parts of our business not directly related to providing water to our customers, such as payments for issuing wastewater bills on behalf of Thames Water.



Our household customers pay just over **51p per day** for their water services. Because we are a water only company, customers also pay a wastewater charge to either Thames or Southern Water.

# Debt, equity and gearing

Like most companies we are financed through a combination of debt and shareholder equity. After deducting the cash we hold, the amount we have borrowed is referred to as our net debt.

NET DEBT (as at 31 March 2022)	
Retail Prices Index-linked bond	£ 175.2m
A revolving credit facility from the bank	£ 59m
Debentures & Leases	£ 0.7m
Cash within our appointed business	£ (19.1)
<b>Net debt</b>	<b>£ 215.8m</b>



Net debt combined with shareholder equity equals our Regulated Capital Value (RCV), which is essentially the total value of our business as calculated by our regulator.

A good way to think about this is like a mortgage. The RCV represents the total value of your property (and increases in value in line with improvements and inflation over time), shareholder equity represents the deposit you put down and net debt represents what remains on your mortgage.

The proportion of the RCV that is funded by debt is commonly referred to as our level of gearing, but historically it's not been unusual for gearing ratios in the industry to be above 80%. Our gearing at 31 March 2022 was 72.4% and while we expect this to increase over the next few years, we have committed to maintain our gearing below the levels considered reasonable by Ofwat for long-term financial resilience and will all consider expectations for such financial resilience as provided in Ofwat's PR24 Final Methodology.



# Our index-linked bond

In 2001, we took out a £100 million Retail Prices Index-linked (RPI) bond which has provided the bedrock for funding our capital investment programme and has meant that in the years since we have not needed to borrow a material amount of additional funds. The bond was issued at a rate of 2.87% interest. Because it is index-linked to RPI it means that both the capital sum and the interest payments will vary accordingly.

The charges associated with the indexation are treated as an interest cost but don't have any immediate impact on cash flow as no actual cash payments are needed until maturity. The fees associated with the issue of the bond are paid back over the life of the bond, plus interest.

bond. In 2021/22 we paid £5m of interest on our bond.

The bond will be repaid between 2027 and 2031. Ahead of this we are already looking at longer term financing strategies to replace it, to ensure our long-term borrowing is secured at the most efficient rate possible.

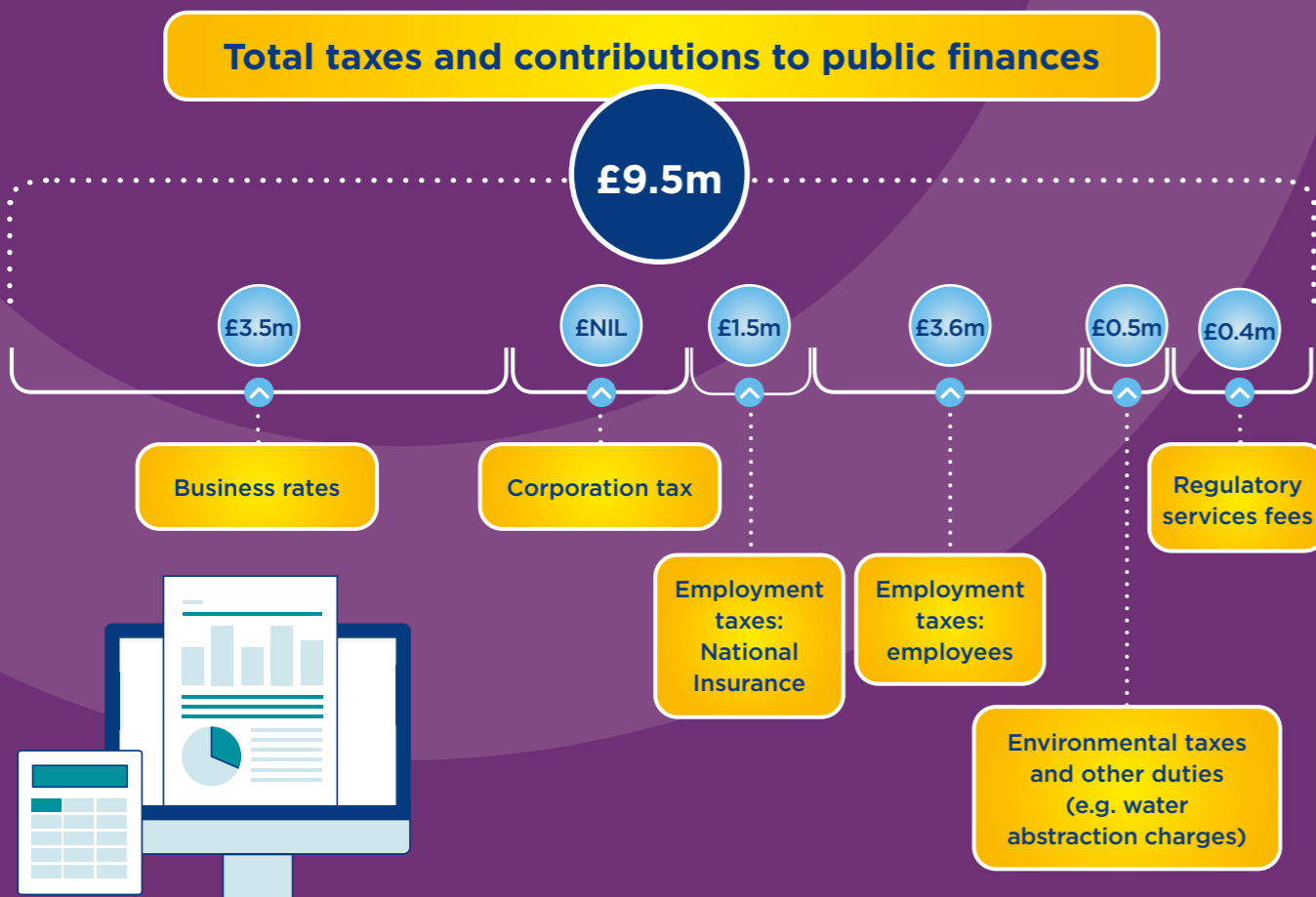
Each year the value of the bond increases by inflation. In addition we are required to pay interest on the



# Profits and tax

In 2021/22 our loss before tax was £5.4m. This was the amount of profit left after taking into account our operating costs, investment and the interest we paid on our borrowing.

We also paid business rates, PAYE and national insurance contributions which help fund the vital services we all rely on. The below diagram illustrates the taxes and contributions we made to public finances in 2021/22.



# Gender pay



We believe in having a diverse and gender-balanced workforce which ensures equal opportunities for all colleagues and reflects the customers we serve. Most importantly, we are confident colleagues are paid equally for doing equivalent jobs, regardless of gender.

Our median pay gap has reduced, down from 14.7% in 2021 to 11.7% in 2022. This is as a result of an increase in the number of women within SES Water in our upper pay quartiles.

We are addressing our pay gap and we are actively seeking to diversify our workforce. Some of the actions we are taking are:

- Created a Company Diversity and Inclusion group
- Supporting hiring managers with a range of tools to assess role-based skills and recruitment training as required
- Encouraging managers to go to schools to assist in World of Work talks
- Writing our recruitment adverts in-house, checking language in adverts and job descriptions to make sure there is no gender bias

We will continue not just as a standalone company, but as a sector, to jointly decrease the gender pay gap.

# Financial resilience and dividends

A key component for our Company is how we remain financially resilient and pay responsible dividends. While this is always a point regularly reviewed by management and the Board, the recent economic pressures have brought this matter into sharper focus.

From our Company's standpoint, we have implemented several initiatives over the last year to ensure we remain financially resilient, including removing certain pre-funding requirements associated with our index-linked bond ahead of required repayments commencing 2027. This has been economically beneficial for the Company and also improved our ability to access further debt funding if required.

In addition, Moody's have recently affirmed our Baa2 credit rating, with a stable outlook. While this is only one component of our financial resilience, it is a positive indicator in this tough economic climate.

Finally, we have carefully adhered to our policy on dividend payments, which is published on our website. This ensures appropriate consideration is given to several factors before a dividend is paid, including overall level of service delivered to customers and importantly that any payments do not cause significant harm to the Company's financial resilience or credit rating. Our dividends continue to be calculated in line with Ofwat's allowed rate of return and in our view are proportionate for the size of our company at circa £3.5m each year.





# Our ownership

We are jointly owned by Osaka Gas and Sumitomo Corporation. Both are Japanese companies that run UK-based operations, and each hold a 50% share in our ultimate UK holding company Sumisho Osaka Gas Water UK Limited.

Holding companies are recognised legal entities and exist to bring together the investment made by shareholders to own and control their interests in other companies.

In our case this enables Osaka Gas and Sumitomo Corporation to jointly own East Surrey Holdings Limited. It is the holding company for the trading companies of the group. A separate holding company, SESW Holding Company Limited, exists to

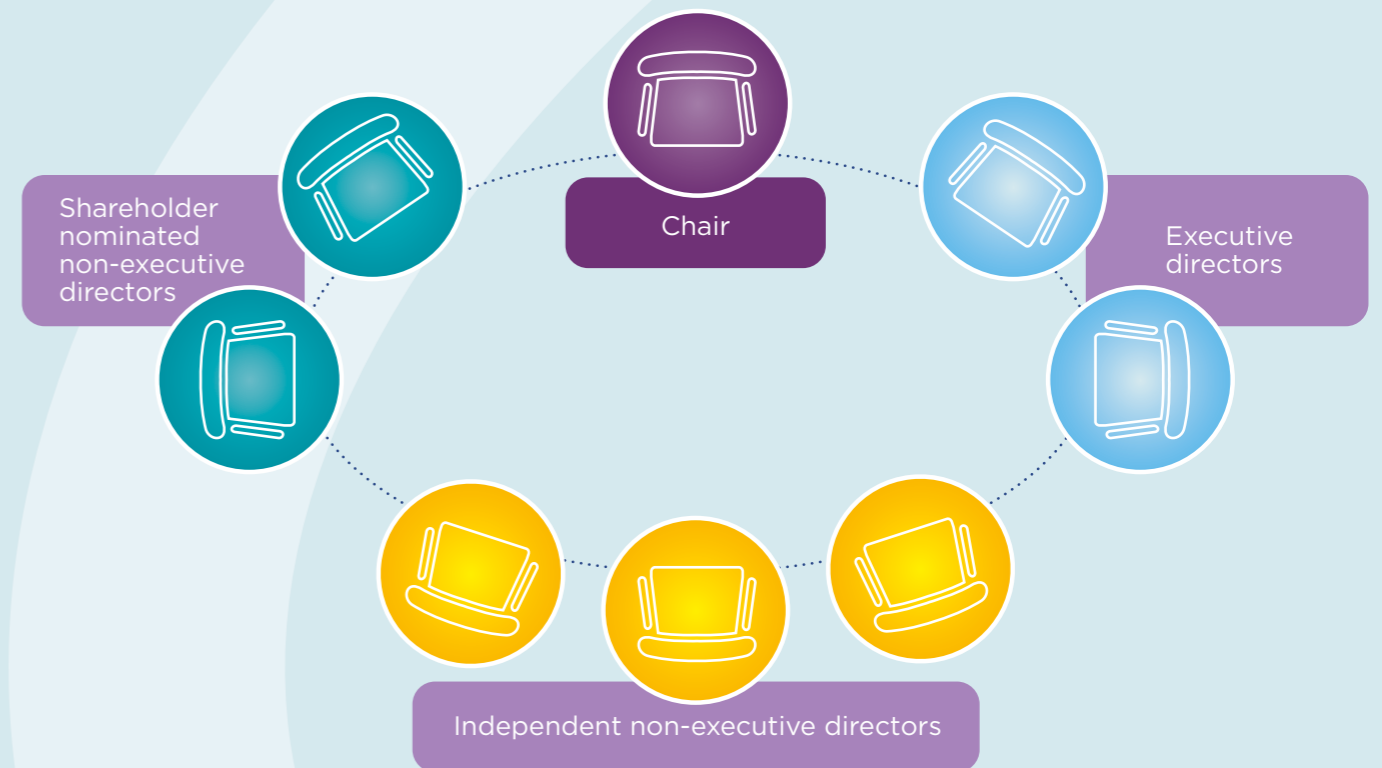
control the funding associated with SES Water and protect the interests of bond holders.

The diagram below shows our ownership structure. All companies apart from those based in Japan are subject to UK tax laws. This has been the case since 2013 and we have not operated any complex, offshore financing arrangements at any time during this period.



# Our Board

Our Board is made up of executive directors from SES Water, non-executive directors representing our shareholders and independent non-executive directors. It is led by a Chair, who is independent, and is responsible for making decisions affecting the Company.



Our Board operates seven main committees, each chaired by an independent non-executive director:

**Audit Committee** - responsible for making sure we follow robust and effective processes for financial and regulatory reporting, internal controls and risk management.

**Remuneration Committee** - responsible for our remuneration policy and its application, including levels of executive pay and the targets that are set as part of the performance-related employee bonus.

**Nomination Committee** - responsible for making sure the Board size, structure and membership is reviewed, succession planning for Board members and senior managers and reviewing Board performance.

**Governance Committee** - covers a broad range of governance requirements in the business, including adherence to Ofwat's Board Leadership, Governance and Transparency objectives incorporated into the Company's licence.

**Energy Strategy Committee** - considers various aspects of the Company's energy policies, including power purchasing and key initiatives to achieve net zero carbon by 2030.

**Health, Safety and Wellbeing Committee** - responsible for ensuring the Company is fulfilling its legal and moral duties in creating and maintaining an appropriate culture, system and processes to manage its health, safety and wellbeing obligations.

**Environmental, Social and Governance (ESG) Committee** - a new committee created in 2022, which is responsible for the development and implementation of our ESG strategy, including measurement and monitoring the key ESG performance indicators.

# Committed to enhancing our Board leadership, transparency and governance



Ensuring we continue the high level of interaction amongst our independent non-executive directors, managers and stakeholders so that all views can be understood and represented.

Appointing a designated independent non-executive director to work with our CEO on engagement with our workforce and help increase employee input through our Joint Negotiating and Consultative Committee.



Inviting the chairs of our Customer and Environmental Scrutiny Panels to a Board meeting each year.

Publishing this document every year to explain our finances and governance.



Inviting external representatives to attend our Board meetings, including from Consumer Council for Water and the Drinking Water Inspectorate, where appropriate.

Reviewing our executive pay policy so it gives appropriate weight to performance for customers.



Using an independent facilitator to review Board effectiveness.

Explaining how we have reached decisions on the level of dividends, taking into account the delivery of our obligations and commitments to customers and other stakeholders.



Publishing summary Board minutes.

Our Environmental Scrutiny Panel continues to help us make decisions with an environmental focus and ensures we play a role in enhancing the environment through our investment programme.



To follow our performance against our annual targets and find out more details about the work of our Board you can read our Annual Report on our website.

## What the words mean

### Fixed assets

Physical items used in running our business that we continuously invest in (called capital investment), such as our pipe network or reservoirs.

### Bond

A type of long-term borrowing.

### Corporation tax

A tax on a company's profits before dividends are paid to shareholders.

### Debt

An amount of money that is borrowed by one party from another.

### Dividends

Money that is given back to our shareholders in return for their investment.

### Dividend yield

How much is paid out in dividends each year in relation to how much shareholders have put in.

### Equity

Money from shareholders that is invested in our Company.

### Gearing

Shows the balance between money we receive from our shareholders compared to lenders like banks.

### Inflation

The rate at which the general level of prices for goods and services is rising. It is commonly measured by the Consumer Price Index (CPI) or the Consumer Price Index including owner occupiers' housing costs (CPIH).

### Interest

Money that is paid regularly at a particular rate on debt.

### Operating costs

The money we pay out to run our Company, such as wages, maintenance and electricity.

### Profit

The difference between the money we receive, mainly from customer bills, and the money we spend on running and financing our Company.

### Regulated Capital Value (RCV)

The total value of our Company calculated as required by our regulator Ofwat.

### Retail Prices Index (RPI)

A measure of inflation published monthly.

### Shareholders

Our owners who have shares in our Company.

### Turnover

Another word for sales or income during a specific time period.

