Delivering now and for the future

SES Water
Annual Report and Accounts 2022

Who we are

We are a local water supplier providing an essential public service while playing an active role in the communities we are privileged to serve.

What we do

We supply around 160 million litres of clean water every day to more than 745,000 people in parts of Surrey, Kent, West Sussex and South London.

Read more page 2

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Highlights

- For 2021 we determined our water quality risk index score to be zero and expect this to be industry leading when the Drinking Water Inspectorate publish their results in July 2022
- We have become the first water company in the UK to have a completely smart network of pipes and mains to help deliver our performance commitments, including achieving our leakage reduction target for 2022
- We continue to support our vulnerable customers through our financial support schemes and priority services
- Our customer transformation programme has continued with the launch of a new billing and customer relationship management system. We have also improved our data and digital capability across the business
- In response to COVID-19 we have continued to put the health and wellbeing of our employees and customers first, while striving to do the right thing and continue to supply high-quality water all day, every day
- We have welcomed more than 2,500 people to our state-of-the-art education centre at Bough Beech Treatment Works in the past year, allowing us to continue inspiring future generations
- We have achieved our second Biodiversity Benchmark award from The Wildlife Trusts for enhancing and protecting the biodiversity at our Fetcham Springs site and remain the only water company to currently hold the award
- For the first time we achieved a Gold Award from the Royal Society for the Prevention of Accidents (RoSPA), recognising our commitment to health, safety and wellbeing
- Our new Chair, Dave Shemmans, took over from Jeremy Pelczer in late March 2022 to lead the Company through PR24 and refresh our long-term strategic planning work
- Our charitable fund, in partnership with the Community Foundation for Surrey, has seen us donate more than £27,000 to support many good causes in the areas we serve

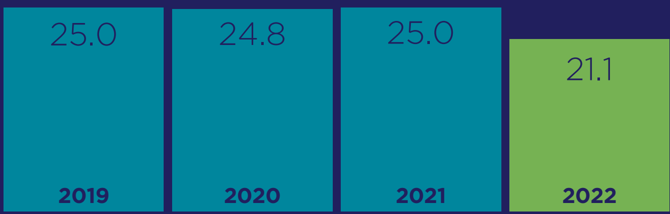
Performance at a glance

2022: Target met/not met

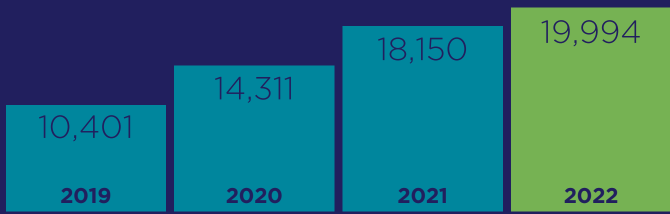
Target met: ✓ Target not met: ✗

Operational performance

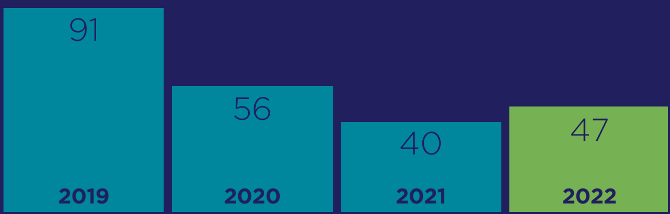
Leakage ✓
Megalitres/day
21.1



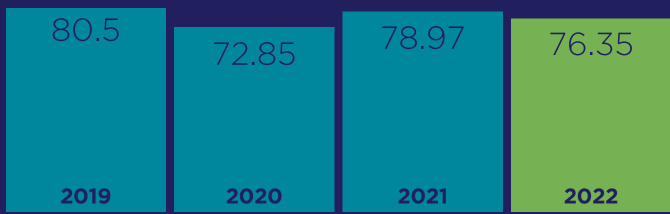
Customers on our Water Support Scheme ✓
19,994



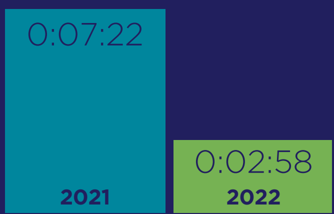
Greenhouse gas emissions ✓
$kgCO_2e$/Megalitre
47



C-MeX score ✗
(industry measure of customer satisfaction)
76.35

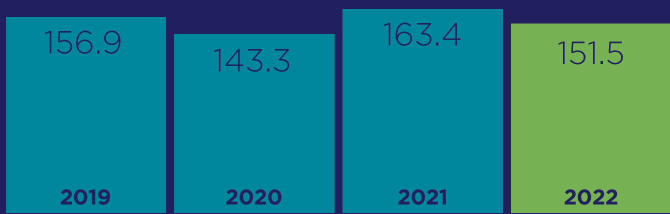


Supply Interruptions ✓
Hours/minutes/seconds/property/year
0:02:58



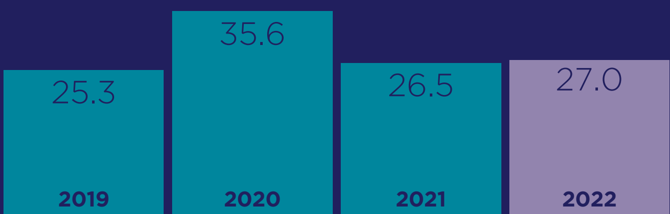
Since the measurement method has changed from 2021, there are no comparable figures for prior years.

Consumption ✗
Litres per person per day
151.5

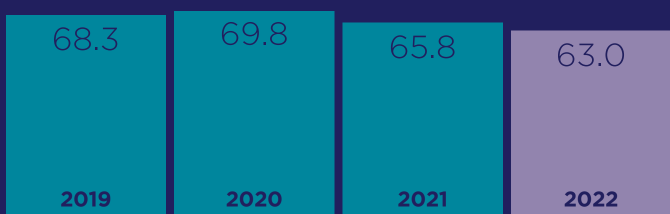


Financial performance

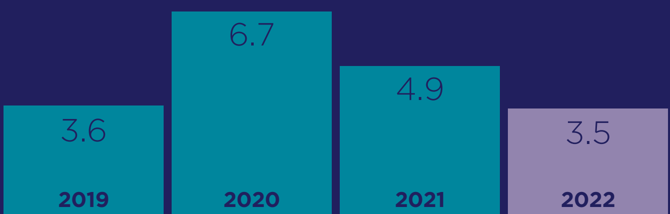
Capital Investment
£m
27.0



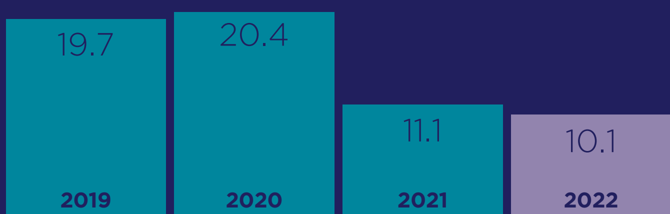
Revenue
£m
63.0



Dividend paid
£m
3.5



Operating profit
£m
10.1



Understanding SES Water

Our vision

To be an outstanding water company that delivers service excellence.

Our purpose

To supply our customers with the highest-quality water all day, every day, in a reliable and safe way, and to do so in a manner that reflects our long-term commitment to serve our local community and environment.

Our business in numbers

Number of employees **342**	Water coming from underground sources **85%**	Water from our reservoir **15%**
Percentage of our pipe network that is 'smart' **100%**	Customers with a water meter **66%**	Water treatment works **8**
Litres of water supplied daily **160m**	People our water is supplied to **745,000**	Number of customers on our Water Support scheme **19,994**

Our values

Our values define who we are, guide our behaviours and underpin everything we do.

Service

We put our customers first and take pride in our service delivery.

Integrity

We are accountable, ethical and trustworthy.

Commitment

We are passionate about our work, act responsibly and care about quality.

Collaboration

We are respectful, welcome diversity and support each other to achieve our goals.

Innovation

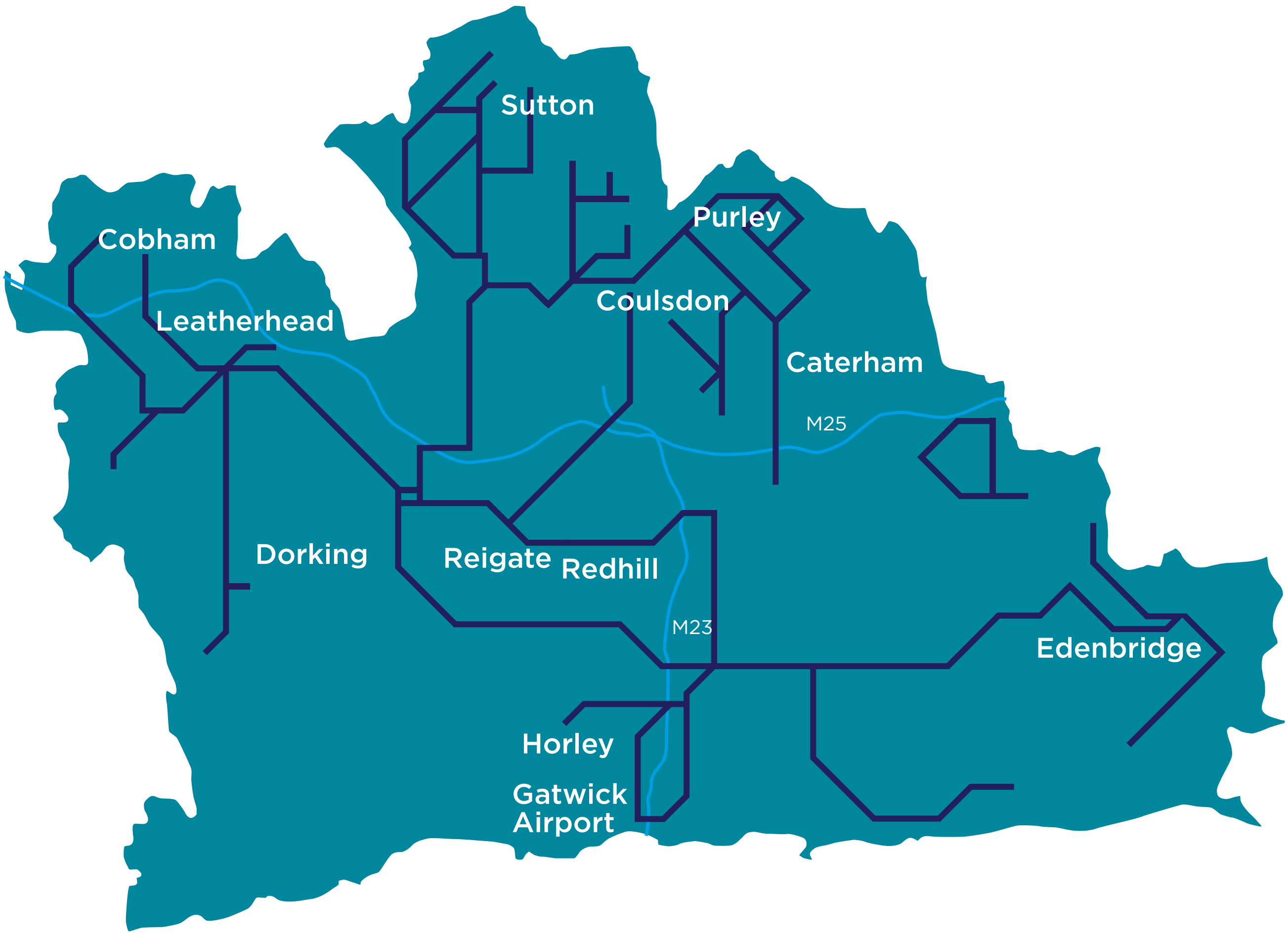
We seek to improve our business, to be forward thinking and to embrace change.

Compassion

We care about the effects of our actions and make a positive impact on the community.

Where we operate

Our supply area is 322 square miles extending from Morden and South Croydon in the north to Gatwick Airport in the south and from Cobham, Leatherhead and Dorking in the west to Edenbridge in the east.



Our structure

Our structure allows us to focus on our core function of supplying a reliable supply of high-quality water while ensuring we provide excellent service to our customers, have the right support teams in place and continue to develop our capability into the future.

We are jointly owned by the major Japanese businesses, Sumitomo Corporation and Osaka Gas. Each has a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd.

Our immediate parent company is SESW Holding Company Limited, established at the time that the Company's £100 million index-linked bond was issued in March 2001 to protect the interests of bond holders by exercising control over distributions.

Customer experience

Kate Thornton
Chief Customer Officer

Responsible for overall customer experience, communications and community engagement

Key functions
Billing, account management, complaints resolution, supporting vulnerable customers, communications and our education programme

Operations

Tom Kelly
Wholesale Director

Responsible for the delivery of water from source to tap – including maintaining a sufficient water supply and reducing leakage

Key functions
Water resources planning and management, water treatment and distribution, capital investment programme and the service provided to business retailers and developers

Quality and compliance

Nicola Houlahan
Quality and Compliance Director

Responsible for water quality, the externally accredited quality and environment systems and providing independent internal assurance and compliance

Key functions
Water quality, health and safety, quality assurance, environmental regulations, risk management and compliance

Business support and control

Paul Kerr
Chief Financial Officer

Responsible for finance, corporate services and governance and ensuring adherence with statutory and regulatory requirements

Key functions
Finance, economic regulation, procurement, administration, property and facilities.

Information technology

John Gilbert
Chief Information Officer

Responsible for the management, implementation and usability of technology and data

Key functions
Digital strategy, IT infrastructure and support, cyber security and data management

HR, learning and development

Sarah Brown
Head of People

Responsible for the overall provision of human resources services, policies and procedures, People strategy and Diversity & Inclusion

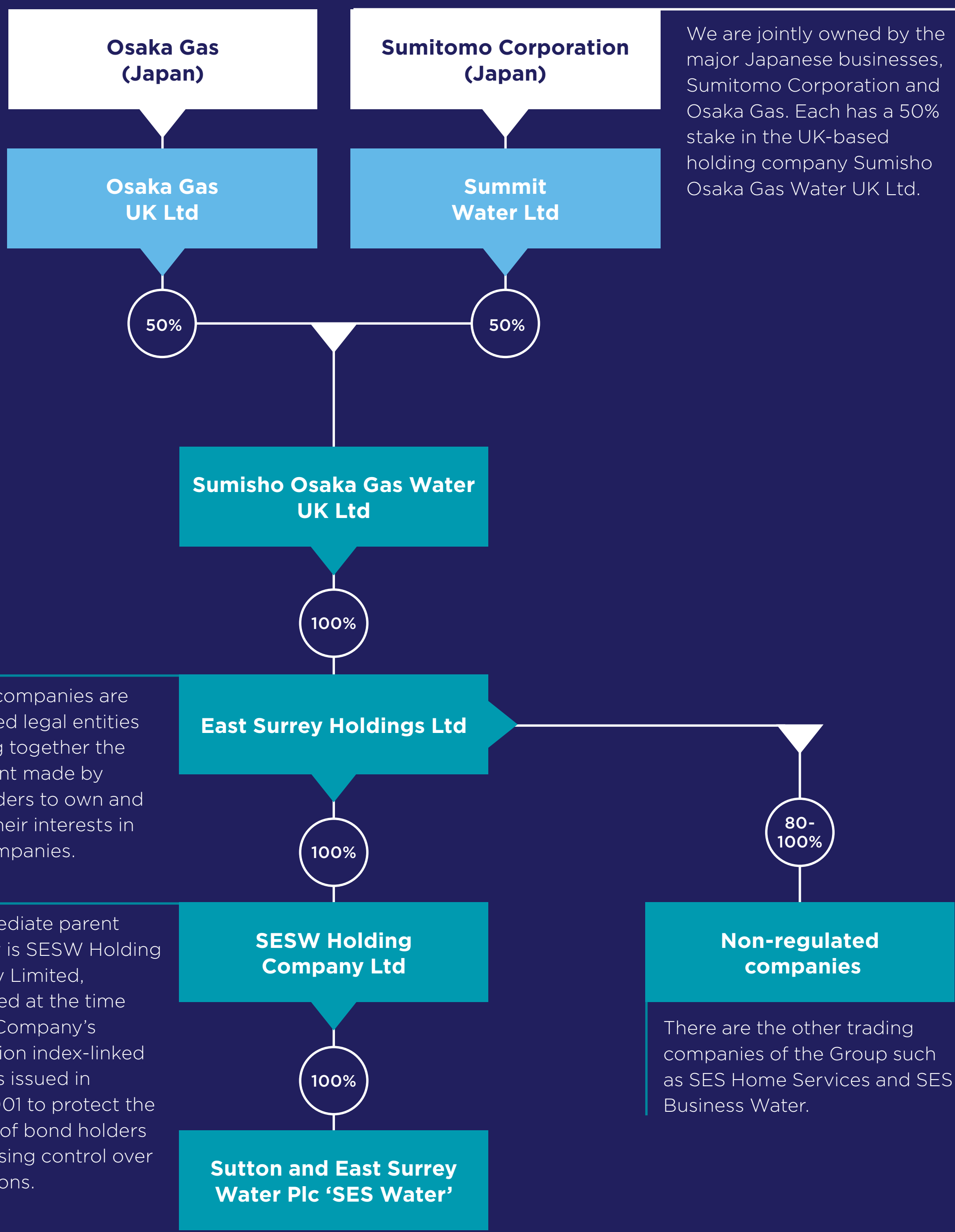
Key functions
Payroll and benefits, learning and development, employee relations, recruitment and retention and employee wellbeing

Except where indicated with (Japan), all companies within this structure are subject to UK corporation tax. This has been the case since 2013 and we have not operated any complex off-shore financing arrangements at any time during this period.

Private ownership

Investing in water services is key to ensuring resilient supplies for customers, both now and in the future and since privatisation in 1989, over £150 billion has been invested across the industry.

We have responsible shareholders who put the interests of our customers first, allowing more money to be reinvested in improving our services or kept in reserve. Like any investors they expect a return on the equity they put in and over time they have taken a fair level of dividend, in line with Ofwat's allowed level of return. Dividend levels are agreed each year by the Board and take into account how well we are performing against a range of targets, both the commitments we have made to our customers and financial. You can read more about our dividend policy and how payment decisions are made on page 109.



We are jointly owned by the major Japanese businesses, Sumitomo Corporation and Osaka Gas. Each has a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd.

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

Our immediate parent company is SESW Holding Company Limited, established at the time that the Company's £100 million index-linked bond was issued in March 2001 to protect the interests of bond holders by exercising control over distributions.

There are the other trading companies of the Group such as SES Home Services and SES Business Water.

Outgoing Chair's statement

In this my final Chair's Statement for SES Water I look back on the past year, and indeed the past decade, and I am greatly encouraged at what the Company has achieved during some very challenging periods.

> "I am delighted Dave's significant knowledge and experience of the Company and sector will continue to benefit the Board, our colleagues and customers. He will be an outstanding Chair."
>
> **Jeremy Pelczer**
> Outgoing Chair

Getting to know the people in the Company over the years has been a real highlight for me. As a smaller company there has always been a local feel to it, especially given a lot of our colleagues also live in the area. That feeling really comes across when you see the care and passion everyone puts into their work.

The Company has always been both community focused and customer-centric. However, there is always more that we can, and must do, to continuously improve our service to our customers and I am confident this will remain a very high priority moving forward.

Launching our new billing system in September last year was a huge milestone for the Company and is just one example of how our programme of digital transformation is improving the experience for our customers, as well as our engagement with them.

There have also been some really important roles introduced into the business in recent years, as we have bolstered both the executive and senior leadership teams, as well as technical specialists, to ensure we meet the challenge of delivering a resilient and sustainable Business Plan.

I would also like to thank our Wholesale Services Director Tom Kelly for his sustained contribution to our resilient operational performance.

Just as important is our commitment to protecting our environment and doing all we can to minimise our impact on it. Launching our net zero carbon route map last summer is a great example of this work in action as we look to achieve net zero by 2030. It is also very pleasing to see the continued recognition we are getting for encouraging biodiversity across our sites, including being awarded our second Biodiversity Benchmark, and also the continued expansion in our fleet of electric vehicles.

As noted above, I know we have areas to improve upon, most notably with our C-MeX and D-MeX scores, but I know a lot of work is being put in behind the scenes to give a better customer experience and help us rise up the rankings.

There are also a number of areas culturally we continue to strengthen, including health and safety and operational resilience. It was great to see us being recognised earlier this year with a Gold Award from the Royal Society for the Prevention of Accidents (RoSPA), a testament to the systems, processes and teams that have been developed to put health and safety at the heart of the Company. It was good to see recognition for the level of support provided when it comes to mental health wellbeing. That said, complacency can be the greatest barrier to consistent Health, Safety and Wellbeing performance. Therefore, we are always extremely keen to ensure a relentless high level of awareness is evident in this critical aspect of the business operations.

We are also nearing the completion of our water supply resilience programme that means by 2025 every property in our supply area can be supplied by more than one treatment works if needed.

When it comes to the water industry overall there are of course some challenging times ahead, not least with regards to the investigations by Ofwat and the Environment Agency into non-compliant operations in relation to sewage treatment. Even for companies like ourselves, which don't treat wastewater, the impact of this will not go unnoticed.

Dave Shemmans (left) and Jeremy Pelczer (right)

We are also still emerging from the pandemic and navigating our road to recovery from that, just as the rest of the sector is. In the prior year we deferred the dividend payment twice due to the impact of COVID-19 and are grateful our shareholders have been so supportive of this view. Despite the wider impacts of COVID-19 on our revenues, I'm pleased to see we remain financially resilient, while still being able to deliver for our customers.

I do feel the biggest opportunity for the Company over the next five to ten years is the advancement of technology and innovation. With significant investment in the new customer billing platform and leakage detection technology across the network, the Company is well placed to provide an even better service to its customers in the future. This also of course depends on supporting employees with the right training and investment in their personal development.

I look back on the past nine years with very fond memories and pride at what the Company has achieved in that time. While there is always some sadness in moving on, and I will certainly miss the people in the business, it is the right time to move on after three consecutive terms of 3 years each.

The Company is very fortunate to have Dave Shemmans as its new Chair and I know he is ideally suited for the role. Given that he has already served as a non-executive director on the Board for a number of years now, I know the future at SES Water is a bright one with him taking the baton. It is extremely encouraging for me to know that, with Dave as Chair, Ian Cain as CEO and the tremendous team at SES Water, the business is in safe hands and I am excited to follow its future success.

Jeremy Pelczer
Outgoing Chair

Dave Shemmans' introduction

I'm delighted and privileged to be the new Chair for such a great company, which has an important duty to not only improve the lives of our customers but also help protect the environment – and with that comes great responsibility.

> "Excellent quality water remains our priority and we need to make sure it is affordable for all. We also need to balance four core areas: customer, environment, water quality and our financial resilience."
>
> **Dave Shemmans**
> Chair

Over the seven years I've been with SES Water I can say with hand on heart it is a great Company to be part of. The culture is strengthened by brilliant people where everyone knows the part they each play in supplying high quality water to our customers and communities.

Whether it is during the day to day running of the business, or the rare occasion we have an operational incident, everyone always rallies together to help their colleagues and that is a great culture to be part of.

Looking ahead to the coming year, both myself and the rest of the Board are acutely aware of the cost of living challenges faced by our customers, colleagues and stakeholders. We will continue to focus on ensuring our customers are supported in these extremely difficult financial times through our social tariff and payment plans, and will also continue to support our employees through our work with the Joint Negotiating and Consultative Committee (JNCC) in terms of appropriately balanced pay and benefits in such challenging times. In addition, I fully expect the rising levels of inflation will place increased pressure on our supply chain and overall financial results, but we will continue to ensure our financial health remains resilient in such circumstances.

We are now embarking on our next Price Review (PR24), which is a key focus for the next 18 months and will set the agenda for the first five years of our long term strategy. While it is somewhat more complicated than PR19, and brings its own set of unique challenges, I know the Company is more than capable of rising to those challenges.

Excellent quality water remains our priority and we need to make sure it is affordable for all. We also need to balance four core areas: customer, environment, water quality and our financial resilience.

For PR24 an important focus is our public and environmental value and how we can achieve it in a way to enhance the environment all round and provide better outcomes. A big part of this will be how we engage with our customers and the local community.

We will continue to meet our customers' exacting expectations both operationally with a resilient network and through providing great customer service. We have invested significantly in technology to improve our customers' experience, including in a new billing system. A new online portal to help customers manager their bills more easily is expected to go live in late 2022. Our digital transformation will play a particularly important role in this regard during the next price review period.

Another area of engagement that is particularly important is around the importance of water saving. Most people don't realise we live in a region of serious water stress and there is a finite amount of water to supply an ever-growing

SES Water team accepting a Gold RoSPA award for health and safety

population. It is our job to promote and provide more education opportunities around water saving to help our customers reduce their usage.

In the short term we have returned to the workplace as part of our 'Together Again' policy and implemented a hybrid working policy. The whole team has performed excellently throughout the challenges of the past two years and I have no doubt being able to collaborate in person again will only strengthen this performance further.

There are of course always areas for improvement, and we must continually challenge ourselves to be even better. Health and safety is one of these areas I'd like to see us doing even more in, as a healthy team is a healthy business. Our recent award from the Royal Society for the Prevention of Accidents (RoSPA) is well deserved recognition and shows we are more than capable of maintaining this level of excellence.

I would also like to see us shift the dial more on the public value we can provide as a Company – not just through supplying high quality water to our customers but also how we can benefit the environment we operate in. We have so many beautiful areas of land within our sites and we are rightly looking at how we safely open them up for the public to enjoy, as well as using them for renewable energy regeneration.

Finally from me, I've had the pleasure of working with Jeremy for the past seven years and can't thank him enough for all his leadership, guidance and commitment to the Company during his time as Chair. We wish him all the best for the future.

Together with the Board and the leadership team, I now look forward to working with all the incredible people at SES Water to help keep us on track to achieving our business targets and be there for our customers when they need us the most.

Dave Shemmans
Chair

8 July 2022

Q&A with Ian Cain

Ian reflects on the last 12 months and looks ahead to 2022/23.

> We have successfully met record demand for water from our customers and outperformed our targets on reducing leaks on our network of pipes, which once again is industry leading.
>
> **Ian Cain**
> Chief Executive Officer

Q Looking back over the past year, what have been the company's biggest challenges and achievements?

I am very proud of what we, as a company, have delivered in the last 12 months, in the face of the unprecedented challenge of the COVID-19 pandemic. This year we have met 15 out of 25 of our performance commitments.

Throughout, we have focused on three core areas, namely:

1. **Protecting and supporting our employees**
2. **Meeting the needs and wishes of our customers**
3. **Taking care of the communities we serve, including the environment.**

In this context, we have achieved a huge amount, most notably responding to and successfully meeting high demand for water from our customers, with a focus on making sure our operations remained resilient. We also outperformed our targets on reducing leaks on our network of pipes, which once again is industry leading. We have also minimised the number of supply interruptions and occasions when customers' water supplies have been interrupted. Plus, we launched a new digital billing system, being the first company in the UK to use it, and have provided extensive training to our staff.

In addition, under our 'Here for you' programme, we have continued, and will continue, to provide our customers with a wide range of support around paying their bills – with many households dealing with financial problems stemming from the impact of the pandemic and the rising cost of living. As we move forward, we will work to further raise people's awareness of the support we offer, so that they can access it – for example, should their circumstances change.

As noted in the Key Performance Indicator (KPI) review section later on, I'm pleased to see substantial success across a number of our performance commitments in years one and two of our current Business Plan.

We fully recognise we need to make improvements to our customer service, both for households and developers, as measured under the UK water industry performance tables for 2021/22, and we are working hard to do so. This includes improved complaints handling, listening to and acting on customer feedback and reducing bill shock.

We have also learnt from the water quality issue we had in October 2021, where, as a precautionary measure, we asked customers in the Oxted area to boil their water due to potential contamination from E-coli bacteria. While the levels of contamination were very low, we submitted a full report on the incident to the Drinking Water Inspectorate (DWI) and have thoroughly reviewed our procedures and put additional measures in place to minimise the risk of a similar incident in the future.

In November Ofwat published its assessment of water companies' financial resilience and performance against Ofwat's commitments to customers for the financial year up to 31 March 2021. We were named as one of three water companies Ofwat highlighted as having "lower levels of financial resilience" compared to other companies. While we respect Ofwat's opinions, there are times when we strongly disagree and this was one of those occasions, as we have continued to maintain strong financial resilience over the last few years.

Ian Cain helping to build a water efficient sensory garden for local charity The Orpheus Centre in Godstone

The Board and I are absolutely confident the Company's financial standing remains strong and we have taken positive steps to further improve the strength of our finances, particularly in light of the COVID-19 pandemic. Furthermore, one of the key measures used to assess individual water companies' financial standing is their credit rating – an assessment of credit worthiness. Our credit rating has improved since March 2021. The rating agency Moody's upgraded us from a "Baa2 negative" rating to "Baa2 stable" in October 2021, which is a good rating. Ofwat did not appear to have reflected this in their conclusion.

The financial year ended 31 March 2022 continued to be another challenging year, with the impact of COVID-19 still being seen through lower demand and revenue from our non-household customers, the impact of high inflation increasing our financing costs on our index linked bond, as well as supply chain pressures increasing our operating costs. In addition a number of one offs including a change in tax rate significantly increased our deferred tax charge and one off financing costs.

Becoming a more agile organisation has played a major part in maintaining services to our customers over the last year. The initial large-scale shift to homeworking changed to a hybrid approach – with staff that have flexibility in their role to work from home, or in the office, or out on site. During this period, it was vital to increase our focus on health and safety, particularly around maintaining mental wellbeing. This is something that has been recently recognised by us receiving a Gold Award from RoSPA, the Royal Society for the Prevention of Accidents.

The learning we have gained from the experience of shifting to remote working from home, and on to hybrid working, is helping to inform how we are planning to use digital technology to make a 'step change' in the way we work as a Company.

We have a firm foundation for moving forward on our digital transformation, as 2021/22 saw us become the first water company in the UK to have a completely smart network of pipes and mains. This means we now know about leaks and bursts before they affect our customers and we have a wealth of information about the performance of the network to make more informed investment decisions.

Furthermore, during one of the most challenging years for us as a business, we launched a new digital billing system on the Salesforce platform, opening up a wide range of future opportunities for us. This represents the largest change we have made to this area of our business in more than 20 years and the largest technology investment in our history. Alongside our smart supply network, the new billing system is a key part of our work to become a fully smart water utility, enabling us to provide

Q&A with Ian Cain continued

customers with further improved levels of service. We have been working hard to build our data skills and capabilities across our organisation. We see data as the fuel that will drive our digital transformation.

We also launched our Universal Metering Programme, which, by 2025, will provide water meters to the majority of our customers that don't already have them. This is a key element in our work to secure resilient water supplies for the decades ahead, as households on a meter typically use around 15 per cent less. It's also a fairer way to pay for water, as you pay for the amount you use, just like with gas and electricity. As part of the metering programme, we are looking to roll out smart water meters in future, something that would further enhance our wider smart supply network's capabilities.

In terms of our ongoing commitment to protect and improve the environment, we launched our routemap for how we will become carbon net zero by 2030, in line with the overall goal set by the UK water industry. Our efforts are focused on becoming more energy efficient, reducing demand for water, generating more energy from renewable sources and decarbonising our fleet of vehicles.

We also contributed to the development of the new regional plan for South East England to secure resilient water supplies for the future – as part of Water Resources South East (WRSE), the alliance of the six water companies that serve the region. The plan's aims include reducing damaging abstractions from the environment, such as chalk streams, through further investment to tackle leakage and help customers use water more efficiently.

I'm also delighted to say we retained The Wildlife Trusts' Biodiversity Benchmark for our Elmer Treatment Works in Leatherhead for the second year running – the only water company to hold the award. We also achieved the award for our site at Fetcham Springs and are working towards gaining the same accreditation for Bough Beech Treatment Works in Kent within the next three years.

> "I'm delighted to say we retained The Wildlife Trusts' Biodiversity Benchmark for our Elmer Treatment Works in Leatherhead for the second year running – the only water company to hold the award."
>
> **Ian Cain**
> Chief Executive Officer

Finally, we supported the Run Reigate event for the first time, providing 5,000 runners with high-quality water from our standpipes, which prevented 25,000 plastic bottles being provided to competitors and spectators at the event.

Q There is a lot of work going on in the background to refresh your company purpose and strategy. What benefits will this have moving forward?

Day in, day out, our priority remains providing top quality water to our customers, at a price that everyone can afford, and in a way that protects and benefits the environment and wider society.

However, following a period of unprecedented challenge due to the COVID-19 pandemic and two years into delivering our Business Plan for 2020-25, it's important for us to take the opportunity to look forward and update our Company purpose accordingly. This will bring more clarity and detail to what it means and what we need to do to deliver even more for our customers, communities and nature.

In short, the world has changed and so the time feels right to re-examine who we are as a Company and why we are here. In turn, refreshing our purpose will inform our strategy for the coming two and half decades – how we will make our vision a reality and achieve our objectives. The first five years of the strategy will be set out in our new business plan for 2025-30.

So, we've been discussing our Company purpose, in the context of a wide range of challenges, including:

- Meeting the needs and wishes of a growing and aging population
- Affordability and the cost of living
- Dealing with our contribution to, and the impact of, climate change
- Harnessing the power of new technology, in particular to provide our customers with service that's more personal and tailored to their needs.

In addition, the COVID-19 pandemic has provided a whole new dimension to our focus on being resilient as a business – making sure we continue to supply households and businesses with the water they need, when they need it, no matter what.

In the coming months, we will share our updated Company purpose, which has continued to be developed since last year, with our customers and stakeholders and reflect how they have already helped us shape it. However, our discussions to date have focused on a number of key themes, including:

- **Changing our relationship with our customers, so we have a much stronger connection with them and their trust and pride in us is further**

increased. This will create a platform for a different conversation with customers and communities, focused on the 'value of water' in their everyday lives – for example, for health and hygiene, enabling economic growth and supporting nature and wildlife

- **Becoming the first truly smart water utility, with our operations, our people, our customers and our communities all fully digitally connected.** This will make us more agile and efficient and enable us to provide customers with an excellent level of service that's tailored to meet their individual needs and preference
- **Putting customers and the environment at the heart of all our investment decisions and actions.** Whether we're considering how we build and maintain our treatment works and network of pipes, or who supplies us with goods and services, how we enhance the environment and sustainability will be a central factor in what we decide to do.

The work on refreshing our purpose and strategy continues and we look forward to sharing more on this in the coming year.

Q What are your key priorities for 2022/23?

Our focus remains on delivering the best possible service to our customers and communities, while safeguarding and improving the environment we rely upon. Alongside this, we will further develop our long term strategy and Company purpose, feeding into the development of our new business plan for 2025-30 through the new price review process.

We know we have more to do to improve our customer satisfaction and with the launch of our new billing system we are confident we will be able to achieve this.

With the growing pressures on household finances, we will continue to offer a variety of support to customers who are struggling to afford their water bills – under our 'Here for you' programme. This will include working to further promote the help that's available, so that customers are aware and can get in touch straight away, or in the future – as we know that people's circumstances can change. In particular, we want to work to better target the support we can provide, so it's directed to where it's needed most – something that can be challenging due to the complex range of factors that can determine if someone is able to afford their household bills.

Affordability and water efficiency are closely linked, as saving water also saves energy and money on utility bills. Using water wisely is also key to making sure there's enough water for all in the future and to supporting nature and wildlife by helping reduce what we need to take from local rivers, for instance.

So, we want to build on our work to support customers to save water and improve the way we engage with people on this issue. Central to this effort is our Universal Metering Programme, which launched last year, with the number of meters being installed each week set to steadily increase as the project progresses. The programme provides a real opportunity for us to have a 'conversation' with our customers about how they use water in their daily lives and to support them to reduce what they use by making small changes – for example, by providing free water-saving products and tailored advice on being more water efficient from our team of experts. We are also further signposting the support we can provide on bills. Of course, when we are asking customers to save water, we need to do our bit too. So, we will be building on the launch of our smart water supply network to help us further bring down the amount of water lost through leaks – in line with our pledge to reduce leakage by 15 per cent by 2025, and halve it by 2045.

Currently, we are installing water meters under our metering programme, ahead of moving to smart water meters in the future. Smart meters would add significantly to our already smart water network, providing further benefits in terms of being able to reduce leakage on customers' properties and provide customers with a much clearer picture of their water use. However, it's also important to carefully consider all factors. The ongoing effects of the pandemic have significantly increased cost and delivery times for many components used in smart metering, and we are working hard to secure the commencement of smart roll-out as soon as we can.

More broadly, innovation will continue to be a major theme for the business during 2022/23, with our ongoing push towards becoming net zero carbon by 2030 – such as via the roll out of more fully electric vehicles in our operational fleet. And, following the launch of our new digital billing system, we will be working to extend this to give our customers the ability to manage their account and bills online.

We will continue playing our part in further developing the regional water resources plan for the South East, based on new thinking and ways of working, such as adopting an adaptive planning approach to take account of the wide range of future scenarios we could face, depending on what happens with population growth, climate change and technology. The outputs of the new regional plan will feed into our own Water Resources Management Plan, which we will be publish for consultation in the coming year.

Finally I'm looking forward to forming stronger partnerships with groups, charities and organisations within our community to ensure we are providing as much support as we can, outside of our primary role as a water supplier. There is so much potential for us to make a real difference to people's lives and be the Company that all our customers can trust and rely upon.

Ian Cain
Chief Executive Officer

8 July 2022

Market review

Market driver	What's happened?
Protecting and improving the environment “The Environment Act will deliver the most ambitious environmental programme of any country on earth.” **George Eustace** Secretary of State for the Environment, Food and Rural Affairs	– The Environment Act was passed by Parliament, with the water sector set to play a pivotal role in meeting many of the ambitious targets it sets out. For example, reducing average water use per head of population by 20 per cent by 2037, and creating or restoring more than 500,000 hectares of wildlife-rich habitats by 2042 – There has been a renewed drive to reduce the amount of water taken, or abstracted, from the environment, with the Government unveiling its new Water abstraction plan in July 2021 – aimed at ending ‘damaging abstraction’ from rivers and groundwater sources. This goal has been at the heart of the new regional water resources plans that were launched in early 2022. For example, the emerging plan for the South East of England (including the SES Water area) details how water companies could further reduce their reliance on sensitive sources, such as chalk rivers and groundwater (See below for more) – The water industry has come under scrutiny like never before, particularly around the issues of stormwater releases from sewers, wastewater treatment works complying with the required laws and standards and bringing down water abstraction. This has impacted the sector's reputation as a whole and is a key factor in driving decisions about future investment.
Continuing to support our customers (affordability) “We have a golden opportunity to create a simpler and fairer system and end the indignity of people skipping meals or other essentials to pay their water bill.” **Emma Clancy** CEO, Consumer Council for Water (CCW)	– The COVID-19 pandemic continued to impact household incomes, with a large number of people remaining on furlough or reduced working hours, or facing redundancy. It also affected the amount of water customers used at home – for example, through increased working from home – The pandemic has also contributed to the biggest rise in the cost of living for decades, with much increased prices for food, fuel and energy. This situation has been exacerbated by the war in the Ukraine, making it increasingly difficult for many households and businesses to pay their bills and cover their costs.

Supporting customers, wider society and the environment

There have been three key themes during the last year.

Firstly, the ongoing impact of the COVID-19 pandemic, including the start of the return to 'normal life' following two years of unprecedented challenges for all parts of UK society.

Secondly, an increased focus on not only protecting but also improving the environment, with the long-awaited Environment Act coming into force. The Act incorporates a host of ambitious goals to benefit nature and wildlife.

Linked to this has been the 'Green recovery', with real focus on successfully emerging from the pandemic through increased economic investment in initiatives that will also deliver wider environmental improvements.

Finally, there's the focus on water companies to provide greater public value, at a time when they have been under significant scrutiny, both in terms of water supply and wastewater issues.

What have we done?

- We have continued to work closely with, and listen to, our Environmental Scrutiny Panel, which was formed to advise, scrutinise and challenge the development of our environmental vision and how we implement it across the company.
- We are the only water company to hold The Wildlife Trusts' Biodiversity Benchmark and achieved the award at our second site, Fetcham Springs earlier this year. This is for enhancing and protecting biodiversity and follows gaining the award at our Elmer Treatment Works back in January 2021. Our work to achieve the same accreditation at our Bough Beech Treatment Works by 2025 is ongoing.
- In 2021 we published our routemap to achieving net zero operational carbon emissions by 2030, in line with the industry's Public Interest Commitment made by all English water companies. Our routemap focuses on managing demand for water so that we need and use less of it and, in turn, emit less carbon. Our aim is to reduce annual emissions by 2,400 tonnes by the end of the decade.
- We have been fully compliant with our environmental licences and consents and have had zero Category 1 and Category 2 pollution incidents this year
- As part of Water Resources South East (WRSE), the alliance of the six water companies that serve the South East of England, we have contributed to the development of the new regional plan to secure resilient water supplies for the future – in the face of population growth and climate change and while delivering long-term environmental improvement. This includes reducing damaging abstractions from sensitive chalk streams – for example, through £5 billion of investment to reduce leakage and help customers use water more efficiently and calling for further Government action to reduce water use across society – such as through improved building standards. To put the scale of the challenge into perspective, for us a company, the abstraction reductions we will need to make to protect and benefit nature and wildlife represent up to 10 per cent of water demand in our area.
- As the COVID-19 pandemic continued during 2021, we engaged with our 'customers of tomorrow' by providing virtual lessons to schools and producing and distributing (via local charities and community groups) a book for children about the water cycle and the importance of reducing water use. As restrictions eased, we re-opened our state-of-the-art education centre at Bough Beech Reservoir, welcoming visitors once again to learn about the vital role we play by supplying the water our customers need, at the same time as working to benefit nature, wildlife and wider society.

- We have continued to provide financial support to customers through our Here For You payment support schemes, including Breathing Space – a pause on payments and Water Support – a 50 per cent bill reduction. We visit approximately 140 vulnerable customers a week, to ensure that the members of our community who need it most benefit from our support.
- We have been developing partnerships with other key organisations in our supply area to expand our reach, such as charities, community hubs and food banks. We attend around 20 community events a month with our partners, enabling us to build relationships with many more customers who need our support.
- We have been working to make it easier for customers to understand what support is available and apply for it. We have introduced a new streamlined application form for all of our support schemes and brought in new technology to make our online content more accessible to all.
- At Christmas SES Water colleagues donated over £1200 so that we could pay a special Christmas visit with a hamper to financially vulnerable customers in our area.

Market review continued

Market driver	What's happened?
Preparing for the price review and delivering public value "We want the price review to drive the change needed to meet the demands from climate change, customers' rising expectations, and affordability concerns." **David Black** CEO, Ofwat	– Water industry regulator Ofwat set out its initial views of the framework for the next five-yearly Price Review, known as PR24, as well as future price reviews. This included an increased focus on the long term, delivering greater value to the environment and society, reflecting a clearer understanding of customers and communities and driving improvements through efficiency and innovation – Building on this, Ofwat has also set out its approach to conducting customer research for PR24, working collaboratively with The Consumer Council for Water (CCW) and the sector – to inform common performance commitments and acceptability and affordability testing across all companies, integrating with company-led research and engagement – Finally, there is an expectation from Ofwat that water companies will provide ever greater public value to environment and society through its services – for example, via greater collaboration and partnership working with other sectors.
Making a step-change through innovation "It's a pivotal moment for the water sector – meeting the challenges of climate change head on and making good on promises of improved water quality across the water system." **Myrtle Dawes** Water Breakthrough Challenge judge	– Ofwat allocated a further £5 million in grants from its innovation fund, under its Breakthrough Challenge, helping to progress new technology and collaboration to address challenges such as preventing leaks from water pipes, pollution from sewer pipe leaks and improving water quality – The launch of Spring, the new innovation centre of excellence for the water sector, enabling much greater innovation and collaboration to address some of the biggest current and future challenges facing the industry – from digitalisation, to the need to reach net zero carbon – Water companies in England published their landmark leakage roadmap, setting out how they plan to reduce water leaks by 50 per cent by 2050. This is the latest step in the water industry's public interest commitment, building on its ongoing work to deliver a net zero carbon water supply for customers by the end of the decade.

What have we done?

- We are pleased by the early engagement by Ofwat with the sector on PR24, and we have participated fully to date on the various consultations and workshops facilitated by Ofwat in this regard. While Ofwat's final methodology for PR24 will be issued this summer, we have already commenced several areas of PR24 activities, with a key focus to date on the development of our long-term delivery strategy in line with Ofwat's early guidance in this area. As discussed in this Annual Report, we re-invigorated our own purpose and strategy work in 2021, and therefore commenced – with various stakeholder engagement activity – a focus on our long-term vision and ambitions, which we will utilise to develop further our long-term delivery models for use within PR24.

- We continue to play an active role in helping drive innovation in our sector. For example, by proactively sharing our learning from being the first UK water company to have a fully smart supply network – using intelligent technology to give us 'real-time' information on what's going on across the 2,000+ miles of pipes we manage. That data is enabling us to better prevent and deal with burst water mains and other leaks, so we can provide our customers with the best possible service, as well as save water and energy.
- We played a leading role in developing the water industry's ground-breaking leakage roadmap, providing a clear plan for significantly bringing down the amount of water lost through leaks over the next twenty five years. This comes after we led the water industry's programme of research into leakage reduction, which saw the development of a leakage innovation 'heatmap', collating all the research and innovation being carried out by water companies, to help support greater collaboration across the sector.
- The leakage PALM (Prevent, Aware, Locate, Mend) methodology we developed and championed has been widely adopted in the UK leakage industry and forms a core part of the thinking behind the leakage roadmap.
- As a result of our acknowledged expertise in a number of key areas, particularly leakage and smart networks, we have been invited to partner and contribute to a number of successful OFWAT Innovation challenges.
- Our Innovation Manager, Jeremy Heath, has been appointed as one of the co-leads for a Spring community, looking specifically at delivering resilient infrastructure systems. This enables us to continue to coordinate and drive innovative solutions, both for SES Water and for the wider industry, into this increasingly important area. Our Chief Financial Officer, Paul Kerr, has been appointed to the UK Water Industry Research (UKWIR) Board, which is responsible for facilitating the shaping of the water industry's research agenda and developing the research programme.

Our vision and business model

Our vision

To be an outstanding water company that delivers service excellence.

Development and delivery of long-term strategy

Based on our vision, we are currently updating our overall purpose, strategic objectives and associated delivery plans in line with Ofwat's recent guidance on long-term strategic delivery plans as part of PR24 business planning. This will involve input from various stakeholders and our employers, building on the purpose work we performed in the prior year. We will publish our initial views in this area in late 2022 for wider consideration ahead of issuing our final PR24 business plan in October 2023.

We take pride in being a local company with a long heritage and our customers have told us they value their water being supplied by a small company whose employees have comprehensive knowledge of our supply area. To do this our business model is reliant on a number of key resources and relationships that enable us to meet our obligations.

We are committed to protecting the natural environment, for the benefit of local people and wildlife.

Our IIP Silver award is a significant achievement which recognises the enduring effort that goes into making SES Water a better place to work.

We want the most satisfied customers in the country and our membership will help us get there.

We have achieved a RoSPA Gold Award for Health and Safety, always putting the wellbeing of our people first.

Inputs

Water resources
Managing our water resources through our forward-looking, 60-year Water Resources Management Plan (WRMP) and protecting and enhancing the environment.

Employees
Developing and motivating our 342 employees, incentivising them to deliver a high-quality customer experience at every touchpoint with consumers of our services.

Customer engagement
Engaging customers with the role we all play in valuing water, encouraging behaviour change to protect resources and sharing ownership for how water is used, viewed and valued.

Suppliers
Building a strong relationship with those companies who work on our behalf and are key to the successful operation of our business.

Physical assets
Efficient maintenance of our sites, equipment and networks, significant capital investment to construct new assets and innovation to inform future development.

Financing
Maintaining a robust capital structure, long-term cost-effective debt, shareholder support and a positive credit rating.

Playing our part in achieving the Public Interest Commitments:

Triple the rate of sector-wide leakage reduction by 2030

Achieve net zero carbon emissions for operational activities for the sector by 2030

Water is collected
Groundwater sources provide 85% of our water with 15% coming from our river-fed reservoir.

Water is cleaned
Our eight water treatment works clean raw water to the highest standards, making it safe to drink.

Clean water is put into supply
Our 3,500+ kilometre network of pipes and 24 pumping stations deliver a continuous supply of clean water to our customers.

Water is tested
Each year we carry out 130,000 tests on around 13,000 samples at every point from source to tap.

Customers rely on our water
People need a reliable supply of safe, clean drinking water to their homes and businesses for their vital everyday needs. On average we supply 160 million litres every single day.

Maintenance and development
We constantly monitor our water treatment and storage sites and network, conducting maintenance and developing new infrastructure where necessary.

Customer service
We support our customers with all aspects of their water service.

Outcomes

The value we share between our stakeholders:

Customers
We are delivering our customers' priorities through our Business Plan pledges, including providing a reliable and resilient service, supporting our vulnerable customers and making sure our bills are fair and affordable.

Employees
We invest in our people through new training and development opportunities, fair pay and recognition of good performance and programmes to attract and retain high-quality employees.

Communities
We have provided grants to local causes through our community fund as well as opening a new education centre to deliver an industry-leading education programme for more schools, young people, businesses and community groups. We have also built relationships with local food banks.

Regulators
We have regular consultation and engagement with our regulators, including Ofwat, the Drinking Water Inspectorate and the Environment Agency, to balance and deliver their expectations.

Local authorities
We are planning ahead for a 30% growth in the number of people living in our area by 2080 and working with others to limit the disruption of our essential work in local areas.

Make bills affordable for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty

Prevent the equivalent of four billion plastic bottles ending up as waste by 2030

Be the first sector to achieve 100% commitment to the Social Mobility Pledge

KPIs

2022: Target met/not met

Target met: Target not met:

In our Business Plan for 2020 to 2025 we have made a number of promises to our customers focused around five pledges which they told us were most important to them. Each year we report on our progress and these tables summarise our performance against each target.

We will provide you with high-quality water all day, every day

Water quality – DWI Compliance Risk Index (CRI) score (target met)

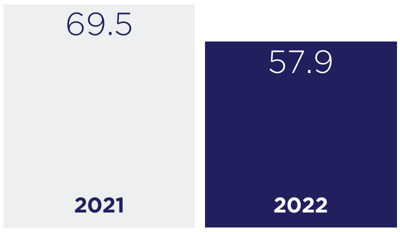
Why do we measure this?
All water companies in the UK are measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index (CRI) to ensure our water is of the highest quality.

Performance
With only one sample exceedance in 2021 due to the condition of customer fittings we have determined our CRI score as zero. As such we believe the DWI will confirm our performance as industry leading in their annual report issued in July 2022.

Mains repairs number/1,000 kilometres (target met)

Why do we measure this?
We want our network to be as resilient as possible which is why we have a programme of mains replacement schemes across our supply area.

Performance
We have progressed a number of key mains replacement schemes across our supply area and met our target for the number of mains repairs across the year.



Water softening number of periods exceeding hardness target (target not met)

Why do we measure this?
We are unique in the industry in having a legal obligation to soften the groundwater we treat.

Performance
Unfortunately we have had a few operational outages this year, all of which affect our softening capability. As a result we have exceeded our hardness target and will receive a financial penalty from Ofwat.

Supply interruptions hours:minutes:seconds/property/year (target met)

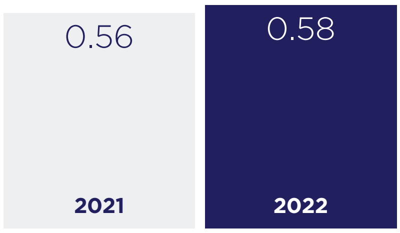
Why do we measure this?
Although some planned interruptions to supply are unavoidable we are always working to improve the long-term resilience of our pipe network.

Performance
Our performance this year has been within our target to keep interruptions to a minimum and so will receive a financial reward from Ofwat.

Taste, odour and discolouration contacts number per 1000 customers (target not met)

Why do we measure this?
We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water.

Performance
This year we received 0.58 contacts which is above our target limit of 0.51 so we will receive a small financial penalty from Ofwat.



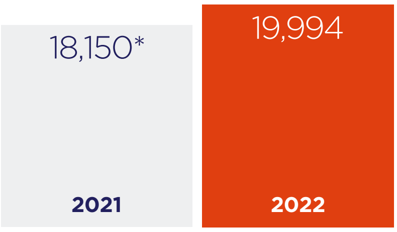
£

We will provide your service at a fair price and offer help when you need it

Supporting customers in financial hardship number

Why do we measure this?
We continue to welcome more customers, who are struggling financially, onto our Water Support Scheme, which provides a 50 per cent bill reduction to eligible people.

Performance
We have surpassed this year's target for 15,970 customers to be benefitting from our Water Support Scheme.

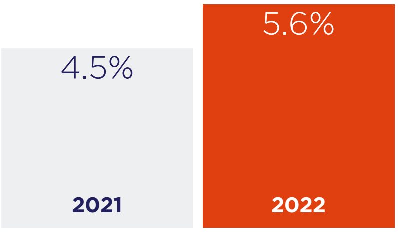


* Restated from prior year disclosed number of 20,274 following a data correction

Customers on our Priority Services Register %

Why do we measure this?
Our Priority Services Register provides extra support to customers who have health, access or communication needs and helps us tailor the help we can offer.

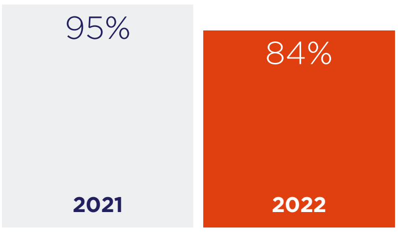
Performance
5.6 per cent of our customers are on the Register, higher than the target of 2.8 per cent.



Vulnerable support scheme helpfulness %

Why do we measure this?
It is important we are tailoring our support in the right away to help those who need it.

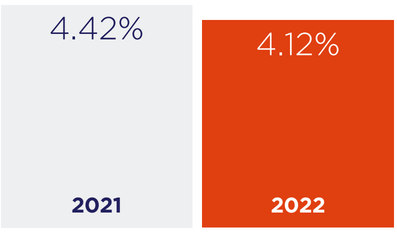
Performance
We have surpassed this year's target of 80 per cent as 84 per cent of people surveyed said the extra services offered are helpful.



Void properties %

Why do we measure this?
We have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water.

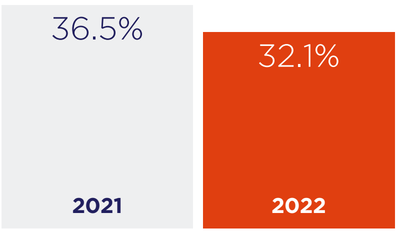
Performance
Although we missed our target of 2.70%, and will receive a financial penalty from Ofwat, we have made progress in reducing the number of void properties.



Vulnerable support scheme awareness %

Why do we measure this?
Promotion of our support schemes is important so people are aware of the financial help available to them.

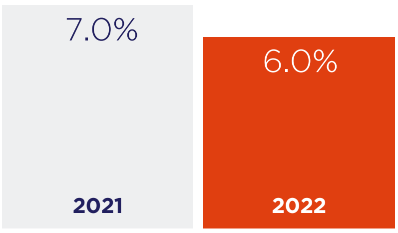
Performance
We continue to raise awareness of the support on offer as we are currently not meeting the target of 59.5% for this commitment.



Proportion of customers who believe their bill is not good value % dissatisfied

Why do we measure this?
It is important our customers feel they are getting good value for the service they receive from us.

Performance
With 6 per cent of customers questioned feeling their water bill is not good value for money, this is within the target limit of 7 per cent.



KPIs continued

2022: Target met/not met

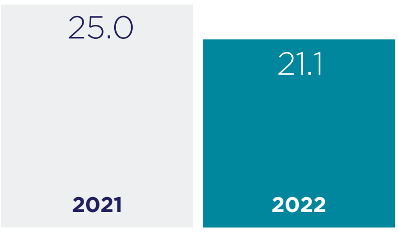
Target met: ✓ Target not met: ✗

We will provide you with a service that is fit now and for the future

Leakage reduction
Ml/day ✓

Why do we measure this?
Managing leakage is one of our customers' top priorities and a key focus for us to keep to a minimum.

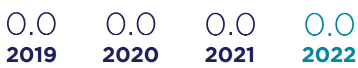
Performance
We have now met our leakage target every year since they were first set over 20 years ago. This is industry leading and we will receive a financial reward from Ofwat.



Risk of severe restrictions in a drought
% customers ✓

Why do we measure this?
We operate in a water stressed region therefore we need to monitor our water resources closely.

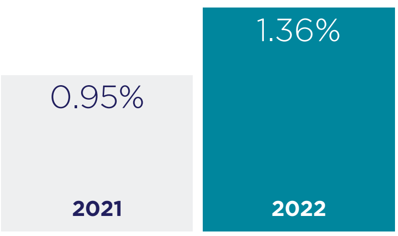
Performance
There have been no restrictions on the use of water this year.



Unplanned outages at treatment works
% ✓

Why do we measure this?
There are times when unexpected incidents reduce the performance of our water treatment works or require us to take them out of service for maintenance.

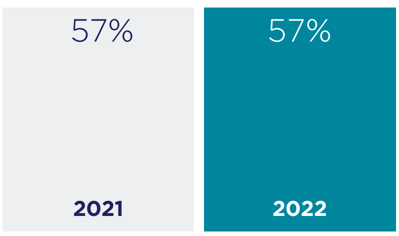
Performance
As a result of the resilient water network we have developed, we are able to plan ahead and have kept unplanned outages below our target limit.



Risk of supply failures
% of properties connected to more than one treatment works ✗

Why do we measure this?
By 2025 we plan for every property to be supplied by more than one treatment works if needed.

Performance
Unfortunately we have been unable to progress with laying a strategic trunk main and will receive a small financial penalty from Ofwat. We are re-planning for this to take place in the remaining years of this AMP.

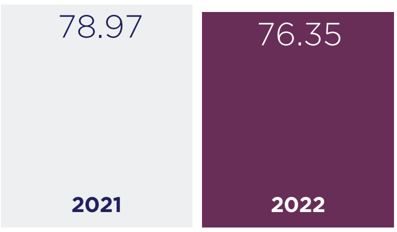


We will provide excellent service, whenever and however you need it

C-MeX (industry measure of customer satisfaction) score ⊗

Why do we measure this?
C-MeX is the industry metric for measuring customer satisfaction and experience across all companies.

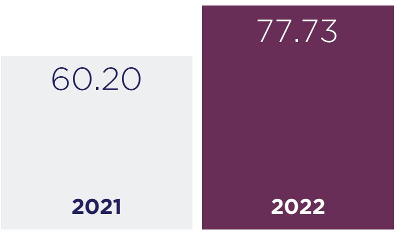
Performance
Unfortunately we did not meet our target of our score being in the top quartile of the industry this year and will receive a financial penalty from Ofwat.



D-MeX (Industry measure of developer satisfaction) score ⊗

Why do we measure this?
D-MeX is the industry metric for measuring developer satisfaction and experience across all companies.

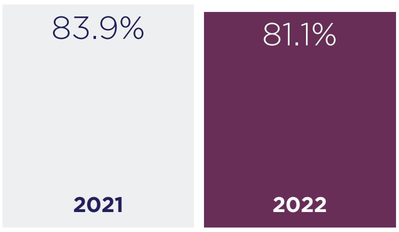
Performance
Although our performance has improved, unfortunately we have not met our target in this area and will receive a financial penalty from Ofwat. Our target is to move up to the top half of the D-MeX table.



First contact resolution % ⊗

Why do we measure this?
It is important our customers receive an excellent, tailored resolution every time they contact us.

Performance
Unfortunately we missed our target with 81.1 per cent of contacts being resolved first time against a target of 82.5 per cent.



KPIs continued

2022: Target met/not met

Target met: ✓ Target not met: ✗

We will support a thriving environment we can all rely upon

Consumption

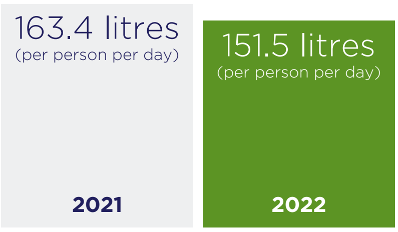
% ✗

Why do we measure this?

We operate in a region classified as being in serious water stress, which is why we have a target to reduce the amount of water per person we need to take from the environment.

Performance

Despite COVID-19 restrictions having eased, demand for water is still high as more people are spending time at home and we have unfortunately not met our consumption reduction target by 5.9 against 145.6 for 3 year average.



Greenhouse gas emissions

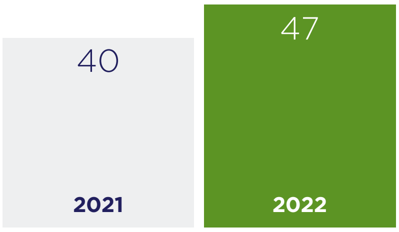
$kgCO_2e$/megalitre ✓

Why do we measure this?

We are committed to achieving net zero operational carbon emissions by 2030.

Performance

We have met our target although emissions have increased because of the impact of Covid lockdown release and Storm Eunice. We have added to our fleet of electric vehicles and published our routemap to achieving net zero carbon emissions by 2030.



River-based improvement – delivery of Water Industry National Environment Programme (WINEP)

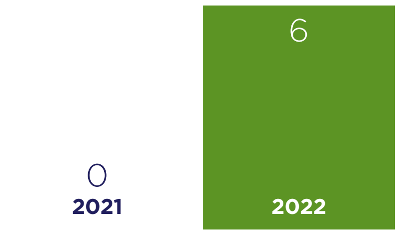
number of schemes ✗

Why do we measure this?

We are committed to improving the ecology and the quality of water in rivers through delivery of WINEP.

Performance

We delivered six of the seven investigations that we had planned to complete by 31 March 2022 with the one remaining investigation deferred for delivery by a year with the full support of the EA.



Pollution incidents

number of category one and two incidents ✓

Why do we measure this?

We are committed to measuring our performance against varying levels of pollution.

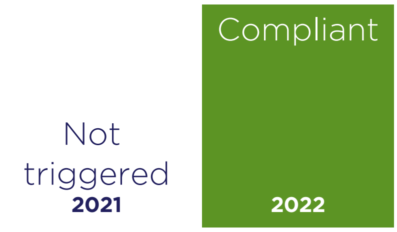
Performance

We are pleased to say there have been no category 1 or 2 incidents of pollution reported this year.

Abstraction incentive mechanism* average megalitres reduction

Why do we measure this?
The Abstraction Incentive Mechanism (AIM) means we will reduce abstraction of water from environmentally sensitive sites when flows or levels are low but this has not been necessary this year.

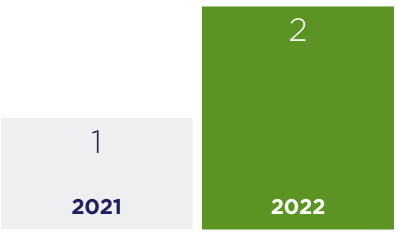
Performance
We are compliant against this measurement.



Land-based improvement – biodiversity number of sites awarded benchmark

Why do we measure this?
We are committed to protecting and improving the biodiversity at all of our sites.

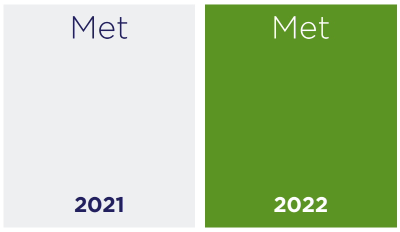
Performance
We have achieved our second Wildlife Trusts' Biodiversity Benchmark, this time at our Fetcham Springs site and are on track to achieve the Benchmark at our Bough Beech site by 2025.



Deliver WINEP requirements delivered

Why do we measure this?
This commitment monitors the delivery of our full Water Industry National Environment Programme.

Performance
We met all WINEP requirements in 2021/22. Although we only completed six of the seven investigations in full, the seventh investigation was deferred for completion with the full support of the EA, to enable the collection of additional monitoring data, and we therefore met the EA expectation on project delivery.



We'll provide you with high-quality water all day, every day

Our pledge in action

Nothing is more important to us than striving to keep our customers supplied with safe, clean water.

Highlights

- For 2021 we determined our water quality risk index score to be zero and expect this to be industry leading when the Drinking Water Inspectorate publishes its results in July 2022
- We continue to have upper quartile industry performance for minimising the number of customers contacting us about the taste, smell or appearance of their water
- We successfully prosecuted a company for illegally taking water from our pipe network, using an unauthorised standpipe and therefore risking water quality in the area

> "The quality of water is superb and it is always there when I turn the tap on and again I have no complaints."

A customer, posting on our online community

Compliance risk index score

0

SES Water Laboratory Analyst Leyla Guven

We'll provide your service at a fair price and offer help when you need it

Our pledge in action

This year we have been able to support our customers to pay their bill and provided financial support options when they have needed it the most.

Highlights

- Our average household bill for 2021/22 equated to around 50 pence a day
- We have continued to provide financial support to customers through our 'Here For You' payment support schemes
- We also visit 140 vulnerable customers a week, to ensure the members of our community who need it most benefit from our support. This includes contact over telephone and attending food banks
- 19,994 customers are benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. This means we are already surpassing the target we set ourselves for year three of this five-year business plan period
- 5.6% of our customers are on our Priority Services Register, which provides extra support to those who have health, access or communication needs
- Over 90% of our customers think the extra services we offer are helpful

SES Water Customer Care Performance Manager, Katie Lowes

"They've been flexible with payments during the pandemic and haven't put pressure on us, like some other companies have. They've come across as pleasant and supportive."

A customer, posting on our online community

Customers on our Priority Services Register
Number

2021	18,150*
2022	19,994

* Restated from prior year disclosed number of 20,274 following a data correction

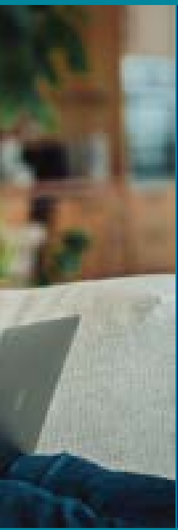
We'll provide you with a service that is fit now and for the future

Our pledge in action

We target our investment in our infrastructure every year where it is needed most and are using innovative technology to provide a better service to our customers.

Highlights

- We have stayed at or below the maximum allowed level of leakage every year since the target was first set more than 20 years ago and have once again met our leakage reduction target, which is industry leading
- We have invested in innovative technology to become the first water company with a totally 'smart' network to detect and fix leaks quicker
- We have been shortlisted for two awards at this year's Water Industry Awards in June – the Asset Management Initiative of the year and the Smart Water Networks award
- We have laid 8.6 kilometres of new main pipe in the past year and progressed a number of key mains replacement schemes across our supply area. As a result we are on track to meet our target for the number of mains repairs in the remaining years of this AMP
- Key mains replacement schemes completed this year include: West Park Road in Copthorne, Brockham Lane in Brockham, Church Lane in Headley and The Bridle Road in Purley



> “If there’s work being done to the network we always get plenty of warning and they stay in touch. Everyone I’ve dealt with at SES has been helpful and approachable.”

A customer, posting on our online community

Leakage reduction
Ml/day

	Ml/day
2021	25.0
2022	21.1

Percentage of network with smart technology

100%

SES Water Redhill Head Office

We'll support a thriving environment we can all rely upon

Our pledge in action

We are committed to reducing the impact of our operations by achieving net zero carbon emissions by 2030 and continuing to implement more sustainable ways of pumping, treating and distributing millions of litres of water every single day.

Highlights

- We retained The Wildlife Trusts' Biodiversity Benchmark Award for the second year at our Elmer Treatment Works and also achieved the award at our second site – Fetcham Springs in Leatherhead. We are the only water company to currently hold the accreditation and expect one more site to follow by 2025
- In June 2021 we published our routemap to achieving net zero operational carbon emissions by 2030
- More than two thirds of our customers are already metered and we are looking to provide meters for 90% of our customers by March 2025
- In the past year we have added to our fleet of electric vehicles, with each electric car helping to save 2-3 tonnes of CO_2e per year, as well as reducing the impact on local air quality
- We've been awarded the Waterwise 'Checkmark' for operating water efficiently at our head office in Redhill

Number of 'Biodiversity Benchmark' awards currently held

2

SES Water proudly partnered with Run Reigate for the first time to support its goal of eliminating 24,000 plastic bottles

> "They are a brilliant company. My wife and I have been to the reservoir in Kent and I've seen the wonderful work done there and think it's a brilliant set-up."

A customer, posting on our online community

Consumption reduction
litres (per person per day)

2021	163.4 litres
2022	151.5 litres

We'll provide excellent service, whenever and however you need it

Our pledge in action

We want the most satisfied customers in the country and to get there we are fundamentally changing a lot of what we do and significantly investing in our people and the systems they use.

Highlights

- This year saw us launch a new billing system, being the first company in the UK to use it. This innovation is the biggest change we have made to this key area of our business in more than 20 years
- We are soon to launch an online self service portal, which will make it easier for customers to manage their account and bills online
- We continue to reduce the number of times customers have to contact us about the same issue, with 81% of contacts being resolved first time
- We are working on a number of programmes that we know will improve our customer service, including: improved complaints handling, listening to and acting on customer feedback and reducing bill shock

“You ask a question and they do everything they can and go into detail with the information they provide. They are a decent company all round in my eyes.”

A customer, posting on our online community

Number of customer contacts resolved first time

81%

SES Water Network Fitter Jason Lester

Our performance

Delivering our customer and environmental commitments in the second year of our ambitious Business Plan for 2020 to 2025.

Water plays a role in all our lives and our customers rightly expect their supply to be clean and plentiful. As we have continued to respond to the global pandemic our performance has been tested, especially against some of our challenging targets. However, we have remained focused on delivering what matters most to our customers. That is the aim of our business plan as it was built around our customers' priorities. Delivering against our five pledges will not only improve the lives of our customers but will also enhance the environment and ensure we are playing our part in making it better.

Our pledges

High quality water all day, every day

We pride ourselves on producing some of the highest quality water in the country and for all water companies this is measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index. Our sampling programme includes going into random customer properties to test taps. For 2021 we determined our water quality risk index score to be zero with only one sample exceedance due to the condition of customer fittings. We expect this score to be industry leading when the DWI publishes its results in July 2022.

SES Water Laboratory Analyst Leyla Guven

Unfortunately a positive result for E-coli was detected in one water sample at our Westwood Treatment Works in October. Our investigation concluded the most likely cause of contamination was bird faecal matter, which was inadvertently introduced into the treated water tank during planned maintenance. The levels of contamination detected (in the sample taken from the tank) were very low. While we cannot rule out the possibility some bacteria entered the supply network, subsequent tests on a much larger number of samples found no traces of the bacteria. This indicates that any issue was very transient in nature and the risk to human health was low.

We submitted a full report on the incident to the DWI and have thoroughly reviewed our procedures and put additional measures in place to minimise the risk of a similar incident in the future.

We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water. In 2021 we received 0.58 contacts per 1,000 population served which is above our target limit of 0.51 so we will receive a financial penalty from Ofwat. While any penalty from our regulator is disappointing, this continues to be industry leading performance of which we are proud as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Illegal usage of hydrants can compromise water quality for paying customers and this year we have continued to pursue companies who do this – we believe it accounts for 20% of contacts from our customers. In September, we successfully prosecuted a company for taking water from a fire hydrant using an unauthorised standpipe.

Purchase Ledger Clerk Jessica Jones

Some planned interruptions to supply are unavoidable as we work to improve the long-term resilience of our pipe network, however our performance this year has been within our target to keep interruptions to a minimum. While we aim to not have any burst mains, they do occur, however the low number reflects the general good health of our network and the work that goes into maintaining it.

Around 85% of the water we supply comes from underground and we are unique in the industry in having a legal obligation to soften the groundwater we treat and a performance commitment on the hardness of the water we distribute. We will always reduce or stop softening if it poses a risk to the quality of the water to ensure we meet the strict requirements of the Water Industry Act. Unfortunately we have had a few operational outages this year, all of which affect our softening capability. This is reflected in our performance where we have exceeded our hardness target.

Fair prices and help when you need it

Most customers do not normally struggle to pay their bill but understandably this year, with continued impact from the pandemic and cost of living increases, we have seen a rise in the number of people with money worries due to their personal circumstances changing.

We have continued to provide financial support to customers through our Here For You payment support schemes, including Breathing Space – a pause on payments and Water Support – a 50 per cent bill reduction. We also visit approximately 140 vulnerable customers a week, to ensure the members of our community who need it most benefit from our support. Our flexible payment arrangements help our customers to keep on top of their bills and avoiding going into debt.

When going into debt is unavoidable we have re-started debt collection, but with a focus on understanding individual customer circumstances and putting affordable plans in place.

We have a target this year for 15,970 customers to be benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. Currently 19,994 people are on this tariff, which means we are already surpassing the target we set ourselves for year three of this five-year business plan period. We will continue to welcome more customers onto the scheme who need it and also continue to raise awareness of the support on offer as we are currently not meeting the target for this commitment.

With 6% of customers questioned feeling their water bill is not good value for money, this is within the target limit of 7%. Our average household bill for 2021/22 equated to around 50 pence a day, with money from bills playing a crucial part in funding our ongoing investment programme.

Our Priority Services Register provides extra support to customers who have health, access or communication needs and helps us tailor the help we can offer. 5.6% of our customers are on this register, higher than the target of 2.8% and 84% of people think the extra services offered are helpful, which is great news.

This year we have focused on building links with local foodbanks and community hubs to expand our reach among vulnerable customers.

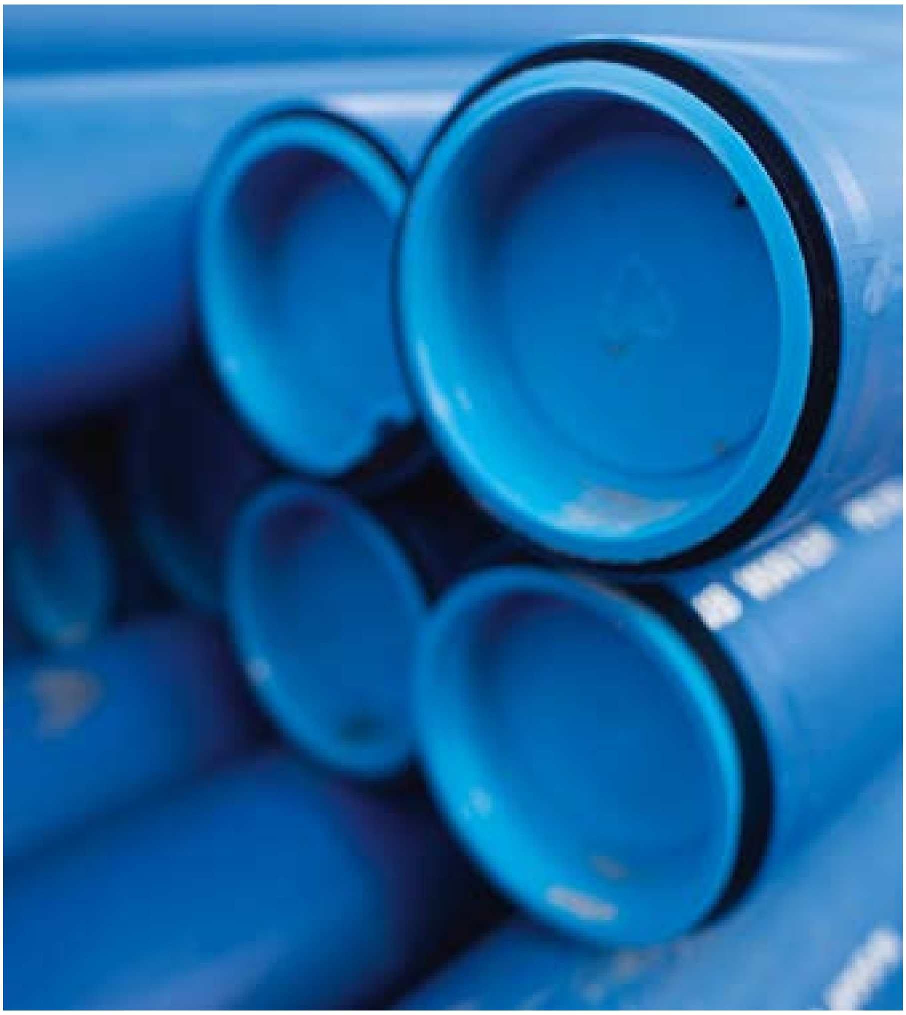
We have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water. Although the number of properties is reducing, we have more to do to meet our target and this year we have incurred a financial penalty as a result. We are also trialling new approaches to reduce our voids further.

Our performance continued

A service that is fit now and for the future

Since 2010 we have been progressing with a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages.

Unfortunately we have been unable to progress with laying a strategic trunk main in Purley which is a key part of the programme. However, this work is now being re-planned and we are confident we will be able to join up our network over the next few years and be the first water company to achieve this. In the meantime we have progressed a number of key mains replacement schemes across our supply area and are on track to meet our target for the number of mains repairs across the year.



There have been no restrictions on the use of water this year. Like other water companies, we depend on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation. During this recharge period we saw above average rainfall which meant our underground resources filled up and we were in a good position to meet the demands of the spring.

Managing leakage is one of our customers' top priorities and a key focus for us too and we remain one of the top performing companies in this area. We have now met our leakage target every year since they were first set over 20 years ago. We are committed to significantly and sustainably reduce leakage levels for the long-term, aiming to more than halve the water lost from our network and our customers' pipes by 2045. That's why we have invested in innovative technology with key partners such as Vodafone and announced in March we are the first UK water company to roll out intelligent leakage detection technology across our entire network. We have also been shortlisted for two awards at this year's Water Industry Awards in June – the Asset Management Initiative of the year and the Smart Water Networks award.

SES Water Metering and Billing Controller, Thomas Rowntree

Excellent service, whenever and however you need it

Regardless of the reason for our customers needing to contact us and the method they use, we aim to provide an excellent, tailored resolution every single time. 81% of our customer contacts are resolved first time.

C-MeX is the industry metric for measuring customer satisfaction and experience across all companies and is based on two surveys – one based on customers' experiences when they have had to contact us and the other a customer experience survey which scores us based on their perception of the Company. While we did not meet our target of our score being in the top quartile of the industry this year our people are passionate about what they do and many are involved in programmes of work that we know will make a difference. This includes improved complaints handling, listening to and acting on customer feedback and reducing bill shock.

Investing in our digital contact capability is key to transforming our service to customers and this year saw us launch a new billing system, being the first company in the UK to use it. This innovation is the biggest change we have made to this key area of our business in over 20 years but it's a very important one in enabling us to manage contact with our customers in a much more efficient and effective way.

We have also been investing a significant amount of time and resource to develop a new self service portal for our customers. The portal will make it easier for customers to better manage their bills online, improving their overall customer experience.

The service we provide to developers is also measured through the D-MeX industry metric and we have not met our target in this area. We know we have more to do to respond more quickly to their applications, keep them updated on progress and better tailor our service to meet their individual needs and we are confident in the progress we are already making in doing this.

Our performance continued

Bee hotel at SES Water's Elmer Treatment Works

Support a thriving environment we can all rely upon

We're committed to reducing the impact of our essential service on the environment while making a positive contribution to its quality. This year we achieved our second Biodiversity Benchmark Award from The Wildlife Trusts, at Fetcham Springs, following our award the previous year for making our land at Elmer Water Treatment Works more attractive to a variety of plants and wildlife. At Fetcham, which covers more than 13 acres and supplies water to Elmer Treatment Works, five significant habitats are maintained as part of the award. All found to be supporting species including invertebrates, birds, mammals, reptiles and amphibians.

Pumping, treating and distributing millions of litres of water every single day is incredibly energy intensive so we are doing more to limit the emissions we create. In the past year we have added to our fleet of electric vehicles, with each electric car helping to save around 2-3 tonnes of CO_2e per year as well as reducing the impact on local air quality. This has helped towards us meeting our greenhouse gas emissions target this year. In June 2021 we published our routemap to achieving net zero operational carbon emissions by 2030, in line with the industry's Public Interest Commitments made by all English water companies. The routemap sets out our ambitions in five strategic areas of focus, which aim to reduce our annual emissions by 2,400 tonnes by 2030. These areas include: water efficiency, energy efficiency, renewables, vehicles and fossil fuels.

We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited resources which is why we have a target to reduce the amount of water per person we need to take from the environment. Despite COVID-19 restrictions having eased, demand for water is still high as more people are spending time at home and we have unfortunately not met our consumption reduction target. Water meters are one of the most effective ways of bringing down consumption and we are progressing our programme to install meters for the majority of our customers who don't already have one. More than two thirds of our customers are already metered and we are looking to provide meters for 90% of our customers by March 2025, as part of our pledge to Ofwat.

There have been no incidents of pollution this year, another notable indicator of the importance we place on protecting and enhancing the environment.

Our people

Pivotal to everything we do is our skilled workforce. Whatever their role, they are dedicated to providing our customers with great service and have shown determination, commitment and flexibility during another challenging year.

As COVID-19 restrictions have gradually eased over the past year, we have begun welcoming people back to work at our sites, as part of our 'Together Again' programme. For roles that support remote working, the Company has adopted a hybrid working arrangement, which gives a degree of flexibility to be able to work from both the office and home. While we recognise the many benefits of having the ability to work from home, being together regularly in person to connect, collaborate and innovate is also of great value.

We are also in the process of developing a Diversity and Inclusion strategy for the business and have worked closely with Inclusive Employers to run a series of webinars for our colleagues to learn more about D&I in the workplace.

Meanwhile our Learning and Development team has rolled out multiple training programmes in the past year, including management courses for aspiring leaders within the Company.

The physical health and safety, as well as the mental wellbeing of our employees, will always be our top priority and we received recognition of this by achieving a Gold Award for health and safety performance in 2021 from the Royal Society for the Prevention of Accidents (RoSPA).

Despite endeavouring for no safety-related incidents to occur, there has been one lost-time accident in the past year, which was reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). As ever, all incidents are thoroughly investigated and remedial actions are taken so we learn all we can, in discussion with our Health and Safety Committee. Our senior leadership team also continues to carry out regular inspections across all our sites with generally minor issues and recommendations for improvement identified.

As a respected and responsible local company, through our Investors in People accreditation, we will continue to help our employees be the best they can be and, as we return to more normality, we'll ensure we create a working environment where people thrive and do a great job.

Senior HR Administrator Jacqui Bridges

Customer Service Advisor Chris Heath

Customer Insight Analyst Conner Jones

Purchase Ledger Clerk Raheela Idrees

Delivering more value for the public

We are proud to have played an important part in people's daily lives for well over 150 years – but we don't just supply water.

We take an active part in improving the areas we are privileged to serve, including playing a full role in tackling wide social and environmental challenges.

Industry reflection

The industry wants to do more to meet the high expectations which rightly come with running a vital public service for the public good. This is why we are all working collaboratively to achieve the industry Public Interest Commitments, which includes five challenging goals to:

- Triple the rate of sector-wide leakage reduction by 2030
- Make bills affordable as a minimum for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty
- Achieve net zero carbon emissions for operational activities for the sector by 2030
- Prevent the equivalent of 4 billion plastic bottles ending up as waste by 2030
- Be the first sector to achieve 100% commitment to the Social Mobility Pledge

Doing more for our communities

In the past year we have awarded more than £27,000 to six local organisations through our charitable giving fund with the Community Foundation for Surrey, which is expected to have benefitted more than 950 people. The partnership forms part of our commitment to supporting worthy causes in the community and giving something back to those groups providing vital services for local people and disadvantaged individuals.

Separately we have funded £15,000 in the past year to local water efficiency projects through our Every Drop Counts community fund. The money from this fund helps projects buy water butts, so gardens and plants can be watered with rainwater, right through to new equipment to help children and adults learn about different ways to save water.

- **Surrey Wildlife Trust:** "The funding from SES Water was used to help us complete an animation on 'Healthy Rivers' and take the message out to schools in Surrey. Due to COVID-19, we approached schools in a number of ways – either face to face or online to suit their policies at the time of working with external providers. We delivered assemblies in person to more than 1,700 children in schools across Surrey. The application process was informal and through a series of conversations we were able to find a level of support that worked for both us and SES Water."

- **Westvale Park Primary School:** "We are delighted with our new water wall. The children are so excited about all the different features and there are so many opportunities for developing vocabulary, stretching thinking and supporting play skills. Managing tight budgets is increasingly difficult for schools and it was a real treat for the teachers to buy resources needed for our fabulous water wall. Thank you for the grant, SES Water."

- **Whyteleafe School:** "We have purchased the water butts with the funding from SES Water and have installed them in two different locations. It has made such a huge difference getting this grant. We relocated our planting area to a new spot and whilst we had a shed we had no means of collecting rainwater to water the vegetables. Our thrive practitioner works with children on their emotional wellbeing and they will enjoy spending time in the area growing vegetables and working together outdoors."

- **Wimbledon Scout Group:** "The water butts allow us to conserve the rain water so the Scouts can use it to water various flower beds and vegetables they grow at various times of the year towards their badge work. This obviously saves us money if we don't need to use the mains water for this purpose and is therefore beneficial to the Group. We found the application process very straight forward and were delighted when we were given the grant. It timed perfectly with the new shed and replacement of another water butt which had cracked last summer."

Giving back to people at Christmas

In December last year we donated more than £1,500 to buy Christmas presents for some of our most vulnerable customers.

The Company gives all its employees a gift voucher at Christmas and last year each of our colleagues were offered the choice of either keeping their vouchers or donating them towards buying a hamper for our customers. The hampers included a selection of food including: chopped tomatoes, tinned fruit, mince pies and some treats to keep the cupboards stocked during the festive period.

Our CEO, Ian Cain, visited some of our customers to give them the hampers, alongside our customer support teams.

Running on tap water

Over the past year we have, for the first time, partnered with local running events – Run Reigate and Run Gatwick. We collaborated with the organisers to provide free tap water for all the competitors and spectators which, in turn, avoided the use of more than 24,000 plastic bottles at each event. Our water was provided from standpipes along the running routes, as well as from our 11,000 litre tanker – The Quenchinator – at the finish line.

> We are so pleased to see this initiative which demonstrates a real commitment to reducing single use plastic within Surrey and aligns to our work on tackling climate change and increasing sustainability across the county. We have to work with businesses to achieve our environmental goals and so we are really pleased to see that SES is so committed to taking action itself and we really support its work to get rid of plastic bottles for Run Reigate but also the wider provision of water refill stations across the county which is good for all our residents.
>
> **Marisa Heath**
> Cabinet Member for Environment at Surrey County Council

A spotlight on...

Helping to build a water efficient garden for a local good cause

In May 2022 we partnered with The Orpheus Centre in Godstone to design and build a water efficient sensory garden, which will provide a visual opportunity for learning, as well as being a pleasant place to relax.

The Orpheus Centre is a specialist college and charity, working to support young disabled adults, who are passionate about the arts, to achieve their potential and aspire to lead independent and fulfilling lives.

Through our 'Give A Day' scheme – where the Company pays for each colleague to undertake a day of voluntary work in the community each year – we had more than 60 volunteers help start building the garden across a week. To commemorate the Queen's Jubilee celebrations our team also planted a cherry tree on the site for students to enjoy while they relax in the garden.

Our stakeholders

We actively manage a range of key stakeholder relationships, recognising that our success and sustainability depends on their input and involvement

Understanding who they are

Our stakeholders broadly fall into two categories – those likely to be affected by what we do and those whose actions can affect us. Although the relationship with each stakeholder group will be different, all must be managed effectively to ensure they help inform our decision-making and how we deliver what we have promised. This page provides a summary of our key stakeholder relationships.

We are also in daily contact with our shareholders, who have non-executive representation on our Board and who also second individuals into our business to work beside senior management, lending support and insight to our work. Our shareholders, and the structure in which they operate, are described in more detail on page 4.

Our customers

What they expect
- Our water to be high quality and safe all the time
- Our service to be reliable and resilient
- To reduce leakage
- To help people cut how much water they use
- To keep our call centre local
- To support vulnerable customers
- To help improve the environment and contribute more to society
- Our bills are fair and affordable, and we provide value for money

How we engage
- Our dedicated 'Voice of the customer' programme which includes a range of activity to better inform the decisions and improvements we make
- Online 'Talk on Water' community
- Our education programme
- Attendance at community events
- Our independent Customer Scrutiny Panel

How we create value for them
- Business Plan targets reflect customer priorities including:
- 15% leakage reduction
- 25,000 people on our Water Support Scheme
- 100% of people will be served by more than one treatment works
- 90% of our customers on a meter
- Our call centre will continue to be based in our local area
- Bills will fall by 15.6% by 2025
- Significant investment in our digital capability to better serve customers

Our employees

What they expect
- Training and development opportunities
- Fair pay and recognition of good performance
- To attract and retain a high-quality workforce
- To be a responsible local business that plays an active role in the communities we serve
- A healthy, safe, inclusive and diverse working environment

How we engage
- Annual employee engagement survey
- Open forums involving employees, the directors and CEO
- Dedicated Board member responsible for employee engagement
- Senior leader visibility and accessibility
- Staff suggestion scheme
- Structured development and appraisal programme
- Internal communications strategy and regular one-to-one meetings

How we create value for them
- Investors in People silver accreditation
- Performance management system and skills strategy in place
- Employee volunteering scheme
- Employee Referral Scheme
- Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a pay deal
- More flexible working practices

Regulators

What they expect
- To build trust and confidence in the sector
- To deliver on the promises we have made in our Business Plan
- Our bills are affordable for all customers
- To contribute to improving the environment
- To increase our resilience to a range of events
- To are efficient and innovative
- To have a positive impact on society

How we engage
- Regular meetings with all our regulators including by our non-executive directors
- Regulator attendance at Board meetings
- Responding to consultations and information requests
- Participation in national campaigns
- Sharing our expertise and perspective through industry-wide forums

How we create value for them
- Maintaining our gearing at a level that is acceptable to Ofwat
- Updated dividend and executive pay policies
- Pledged to make £9 million in efficiency savings between 2020 and 2025
- Leading the industry's research and innovation programme to reduce leakage
- Participation in Ofwat's innovation competitions

Local community groups

What they expect
- We play an active role in the communities we serve
- We support those who are most vulnerable in our communities
- We create and protect local jobs in the community
- We carry out work in roads and public spaces in a way that has minimal impact on communities and businesses

How we engage
- Membership of local business forums
- Working with organisations that help vulnerable customers
- Supporting worthy local causes with volunteering time and financial donations
- Our education programme

How we create value for them
- More than £27,000 of community grants provided through the Community Foundation for Surrey
- Extending our education programme to reach more schools, young people, business and community groups
- Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support scheme

Local authorities

What they expect
- We plan ahead to meet the needs of a growing population
- We soften our water in areas where it is naturally hard
- We work with them and other parties to limit disruption to local areas

How we engage
- Meetings with Chief Executives
- Supporting local economic prosperity initiatives
- Project-specific department engagement such as highways
- Participation in local resilience forums

How we create value for them
- Planned for a 50% increase in the number of people living in our area by 2080
- Delaying some of our trunk mains laying activity to minimise disruption to local businesses

Environmental organisations

What they expect
- We are guardians of the natural environment
- Our operations do not cause environmental damage
- Our decisions are based on long-term environmental sustainability

How we engage
- Involvement in our local catchment partnerships
- One-to-one meetings
- Independent Environmental Scrutiny Panel
- Involvement in producing our Net Zero Carbon routemap
- We engage on a regular basis on key environmental matters and listen to priorities from outside of our organisation

How we create value for them
- Specific targets in our Business Plan to:
- Not cause pollution
- Increase biodiversity at our sites
- Reduce abstraction from two sources during low flows
- Reduce our carbon emissions
- Achieving prestigious Biodiversity Benchmark Awards for several of our sites

Our suppliers

What they expect
- A transparent and compliant procurement process
- Mutual adherence to legal obligations such as being free from modern slavery
- Contractual arrangements including provision for data protection
- Prompt payment for goods and services
- Efficient and effective working practices as partners
- A focus on health and safety
- Line of sight of upcoming work or requirements

How we engage
- Dedicated relationships depending on the scope and nature of the arrangement
- Our procurement team and supplier forums
- Annual performance reviews for business critical suppliers
- Regular planning and performance sessions

How we create value for them
- Productive and stable working relationships
- Agile decision-making as a small company
- Participation in joint industry award entries
- Testimonials and PR

The role of the Board

Stakeholder engagement is a critical function of the Board, central to the creation and delivery of our plans, both in the shorter term and looking to the future, too. There is a role for the Board to play in assessing the needs of different stakeholders and carefully considering competing priorities as part of the decision-making process.

Our process

A key reporting requirement is a statement of the directors on our compliance with section 172(1) of the Companies Act 2006. This includes the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard. You can read our statement, along with some examples in action, on page 71.

Leadership and management receive training on directors' duties to ensure awareness of the Board's responsibilities

Board papers include a table setting out s.172 factors and relevant information relating to them

Our Board continually engages with stakeholders.
Read more on page 44

Board information

s.172 factors considered in the Board's discussions on strategy, including how they underpin long-term value creation and the implications for business resilience

Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

Board strategic discussion

Chair ensures decision-making is sufficiently informed by s.172 factors

The Board performs due diligence in relation to the quality of the information presented and receives assurance where appropriate

Board decisions

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

Actions taken as a result of Board engagement

A focus on employee engagement

Chair Dave Shemmans was the Board's lead on engaging with the workforce and has helped ensure the employee voice is heard in key discussions and decisions. Independent non-executive Jon Woods took over the role from Dave effective 24 March 2022 and attends the Joint Negotiating and Consultative Committee annually where he speaks directly with the representatives without management being present. This year, key topics of discussion have included the ongoing response to COVID-19 and the 2022/23 pay deal.

"The JNCC is an invaluable committee, providing an important voice on behalf of the whole workforce for any key discussions that need to be raised with the Board and senior management. I have always appreciated the openness and honesty with which views are given during the meetings as management is, quite rightly, held to account on certain issues."

Dave Shemmans
Chair

Board deep-dives

In addition to regular meetings of the Board, regular deep-dive sessions take place throughout the year, which are an important part of the governance process and helpful for a greater knowledge of both the Board and management. Time is spent looking at important projects to ensure the investment, structure, goals and delivery plans will result in long-term benefit for the Company and its various stakeholders.

It's also an opportunity for Board members, particularly the independent non-executive directors, to provide targeted challenge and support into specific management plans.

Progress on the creation of our smart pipe network

customers, suppliers, local authorities and environmental organisations

Go live of our new billing system

customers, employees and suppliers

Planning for PR24

customers, employees, local community groups and regulators including Ofwat

Customer service improvement plans

customers, employees and regulators including Ofwat and CCW

Business Market Development

customer and regulators

Our approach to the environment and climate change

We have a long tradition of delivering for our customers, contributing to the communities we serve, and working to improve the environment. Our work and decision making are underpinned by strong governance and transparency which is essential for a company that provides a vital public service.

Over recent years however, we have recognised that the expectations of customers, stakeholders and investors are changing and that we need to put these elements – environment, social and governance – at the heart of how we do business to ensure we remain a sustainable and resilient company in every sense.

Developing an Environmental, Social and Governance Strategy

In the past year, led by our Board, we have continued to formalise, develop and embed an Environmental, Social and Governance (ESG) Strategy across our business that will drive what we deliver and how, and enable us to report consistently and transparently on our performance. While elements of this ESG Strategy have always been part of our daily work as a water company – such as sustainable management of our water resources engaging with and educating our communities about the benefits of using water wisely – collating the varied strands of such work into a discernible strategy that aligns to our purpose is vital to meet the needs and expectations of all our stakeholders.

We formed an ESG Committee in the last year, formed of senior management with support from an independent non-executive director, and with input from specialised external advisers. The remit of this Committee is to:

- Formalise the Company's ESG strategy and ensuring appropriate reporting/communication.
- Align ESG long-term goals with PR24 requirements.
- Ensure all aspects of the ESG framework are being actioned and reporting to the Board and other stakeholders.
- Develop and monitoring key ESG metrics across the Company
- Embed associated ESG reporting across the Company, such as climate change reporting.

In conjunction with our associated long-term strategy work for PR24, the Committee is currently conducting a materiality assessment – with support from an external specialist – to determine the key ESG strategic priorities with engagement from various stakeholders. The results of such work with help guide our strategy and allows the Board to build on the ESG framework provided below. The Board will develop and communicate the key initiatives that underpin each of the elements within the ESG pillars of environment, social and governance matters, and communicate with all parties the work being done – and support required – to meet such goals.

As can be noted in the framework below, several of these elements of the ESG framework already align to the goals of the water industry's Public Interest Commitments (PICs) which the sector has committed to achieve. We will continue to use our ESG framework to ensure monitoring and ongoing alignment of such wider sector goals.

Environmental	Social	Governance
Climate change (reporting)	**Health and safety**	**Board structure and diversity**
Carbon transition PIC – achieve net zero carbon emissions	**Customer relations**	**Policies and procedures**
Sustainable water management PIC – triple leakage reduction	**Priority Services Register**	**Pay and reward**
Customer usage reduction	**Education and social mobility** PIC – be the first sector to achieve 100% commitment to the Social Mobility Pledge	**Shareholder returns**
Waste and pollution PIC – prevent four billion plastic bottles ending up as waste	**Access and affordability** PIC – strive to end water poverty	**Bribery and corruption**
Biodiversity Benchmark	**Workforce relations and equality, diversity and inclusion**	**Political lobbying and donations**
Water Industry National Environment Programme (WINEP)	**Charitable giving and community support**	

Governance and reporting of our ESG strategy

The governance structure, and the roles of each Committee, with respect to ESG are presented below, including the ESG Committee that was implemented in the last year.

We already report on most of these elements in our Annual Performance Report but from next year we will formally report on our performance against the targets in our ESG strategy when fully developed by the ESG Committee.

The Board considers that – through the Committee and Panels below – it has the appropriate expertise to deal with various ESG matters, including climate change, especially with the support provided by the Environmental Scrutiny Panel. External expertise is utilised if and when required on such matters, such as the external support recently contracted to perform the ESG materiality assessment.

As expected, the various Board and Executive Committees noted below all cover multiple aspects of ESG. Therefore, in terms of reporting to the Board, the ESG Governance Committee noted below has direct responsibility for collation and reporting of ESG matters directly to the Board, taking into account all ESG matters raised in the other Committees, and ensuring the Board has one direct route for understanding ESG strategy, initiatives and associated metrics and reporting.

Board ownership

Nomination Committee

Remit: Ensures appropriate Board and executive recruitment and succession planning with a focus on effective Board structures, composition, experience and diversity.

Remuneration Committee

Remit: Considers all aspects of pay and rewards for the Board, executive and senior management, ensuring pay is appropriately aligned to performance.

Audit Committee

Remit: Ensures management maintains an appropriate system of controls in the business to provide governance around key Company policies and procedures, including external reporting, and mitigate risks of bribery, tax avoidance, corruption or political lobbying.

Governance Committee

Remit: 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

Remit: Considers various aspects of the Company's energy policies, including energy procurement and key initiatives to achieve net zero carbon by 2030.

Health, Safety and Wellbeing Committee

Remit: Ensures the Company adheres to strict health and safety standards across the business, and that there is appropriate focus on employees' wellbeing, especially recently in light of the COVID-19 pandemic.

Executive management ownership

Equality, Diversity and Inclusion Committee

Remit: Ensures the Company promotes and supports an inclusive environment built on our values where anyone can flourish, irrespective of their background and personal characteristics.

Independent scrutiny panels

Environmental Scrutiny Panel

Remit: To scrutinise, challenge and help accelerate our environmental ambition and to ensure the needs of the environment are integral to our strategy and operations.

Customer Scrutiny Panel

Remit: Ensures the interests and expectations of our customers are put at the heart of our activities. The focus of its scrutiny is on customer engagement and the service we provide, social purpose, community engagement and vulnerability.

Environmental, Social and Corporate Governance Committee

Remit: A new management-led committee being formed to ensure all aspects of the ESG framework are being appropriately actioned and reported to the Board and other stakeholders.

Environment

Climate Change Reporting and Carbon Transition

With the implementation of the ESG Committee in the past year, the Board has been able to drive forward the development of our ESG strategy and associated initiatives, reporting and communication.

We continue to progress on our climate change reporting and our journey to net zero carbon, as discussed further below.

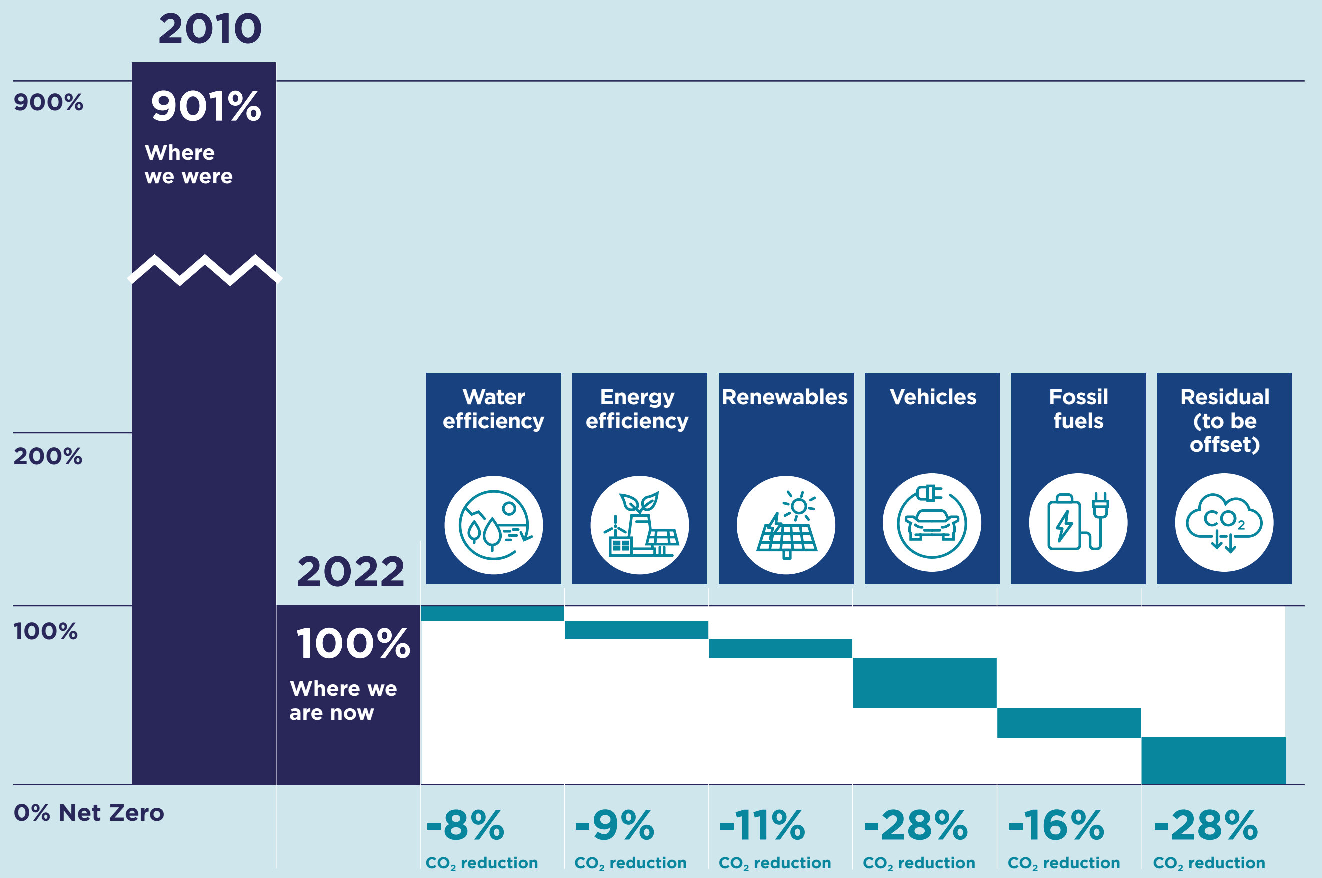
Climate Change Reporting
In June 2017, the Task Force on Climate related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information. These recommendations focus on governance, risk management and business strategies to manage climate related risks and low-carbon opportunities, with an emphasis on financial disclosures and the use of scenario analysis.

	Progress to date	Plans for 2022/23
Governance	– Clearly defined Board responsibility for the oversight and challenge of the Company's overall strategy, including the ESG strategy outlined above, which includes climate-related issues in our business plans and exposure to risk in this area – Initiated an Energy Strategy Committee of the Board to review matters associated with climate change, including aspects of our route to net zero carbon reporting detailed below, such as fleet electrification and solar power initiatives – Continued to utilise an independent Environmental Scrutiny Panel, which includes various third parties such as representatives from the Environmental Agency, to review and challenge climate related initiatives, metrics and goals	– Utilise further external advisers to the ESG Committee to enhance governance using industry best practices
Strategy	– Early discussions internally and with Ofwat to consider ESG related performance commitments for the upcoming Business Plan for 2025 to 2030 – Water resource models including climate scenario analysis – Climate change resilience explicitly set out in our Business Plan – Strategic commitment and pledges include climate related matters	– Refinement of ESG strategy in line with outputs from our materiality assessment and associated PR24 long-term delivery strategy and plans
Risk management	– Initiation of an externally facilitated materiality assessment to identify priority areas of focus for our stakeholders – Further alignment of climate change risk and opportunities into the Company's risk register – Continue to publish in this APR the risks identified as being particularly sensitive to climate change – Further consideration of the financial risks associated with additional climate change investment as part of the long-term viability statement in this year's APR, inclusive of scenarios required to achieve net zero carbon by 2030	– Complete materiality assessment for the Company with associated actions for our ESG strategy and underlying initiatives
Metrics & targets	– Development and review of draft ESG Key Performance Indicators by ESG Committee	– Finalisation of ESG metrics following completion of materiality assessment

Carbon transition – our progress to net zero carbon by 2030

The Company has always reported certain aspects of climate related disclosure under our regulatory requirements (such as Greenhouse Gas Emissions), but – as in prior year – we have integrated these requirements into our strategic report.

Our net zero carbon routemap



Each year, the combined gross carbon emissions produced by the English water companies in carrying out their day-to-day operational activities is three million tonnes. As a sector we are committed to achieving net zero operational carbon emissions by 2030, some 20 years ahead of the economy as whole, making it one of the most ambitious decarbonisation targets in the country.

At SES Water, we currently emit 2,800 tonnes of carbon per year in the delivery of the high-quality drinking water we produce. This is a ninth of what it was 12 years ago because of changes we have already made to how we source and use energy, and the ongoing decarbonisation of the UK electricity supply industry. This has included us purchasing 100% of the electricity we use from green sources, increasing the number of electric vehicles in our fleet, improving how we monitor and control our energy use and investing in renewable energy generation at our own sites including solar generation. However, there is much more to do. Our current business plan performance commitment is to maintain 55 kgCo2e/ML until 2025 but to achieve net zero by 2030 we must go further and faster.

Read more about our greenhouse gas emissions this year in the Director's report on page 110.

We've devised a route map to net zero operational carbon by 2030 so we can deliver a more sustainable service to customers, improve the environment and contribute to the sector-wide target. It includes five areas of strategic focus:

- Water efficiency – we will reduce how much water we abstract from the environment and help our customers to use less
- Energy efficiency – we will reduce how much energy we use to deliver each litre of water by improving the monitoring and control of our energy use
- Renewables – we will source more renewable energy and increase how much we generate on our land
- Fleet – we will increase the number of 'emission free miles' our staff travel to carry out their jobs by reducing unnecessary travel and switching to electric vehicles
- Fossil fuels – we will phase out our use of fossil fuels, replacing them with alternative sources and new technology.

By 2030 we are aiming to achieve more than a 70% reduction in operational carbon emissions. We will need to offset any remaining emissions through purchasing carbon offsets by third parties. The need for offsetting is a key challenge, our response to which will evolves between now and 2030, in dialogue with stakeholders including Ofwat. Longer term, our focus will be on measuring and reducing the carbon used during capital works such as upgrading or constructing new treatment works and pipelines – also known as embodied carbon. We'll also be looking at ways to sequester and remove more carbon from the atmosphere through improving how we manage our own sites, helping to deliver long-term environmental improvements.

Risk management – Climate change risks and opportunities summary

Background

As noted on page 68, climate change is one of our principal risks. We are already experiencing its impacts, and are assessing the scale of the challenge ahead. We have taken a precautionary approach in our climate change risk assessment to avoid underplaying the significance of the challenges that we – and we believe others in the sector – face. In assessing risks, we have considered the impacts of climate change across our business and the communities we serve and have screened for the risks which are of most significance to us – now and in the long-term. This work has taken place both internally, with the external specialists and with organisations such as WRSE, with who we are developing the water resource plans for the region.

Consideration of climate change risks and opportunities

In the last year we considered climate risks and opportunities as part of the external Climate Change Adaption report submitted to Defra, which provides an initial view of the impact of such climate change risks and opportunities and will be considered further as we progress overall ESG materiality work in 2022/23.

This Climate Change Adaptation report considered risks arising across following key categories:

- Drought and high/peak water demand
- Water quality and natural capital
- Flooding and erosion
- Subsidence
- Failure of interdependencies (e.g. disruptions to energy supply or telecoms)
- Household water supply interruptions



In addition, during the year management also considered opportunities associated with the climate adaptation challenge, including:

- Using innovative approaches to construction of future assets
- Being a more energy efficient company

Review of the above matters included when such risks and opportunities would be likely to manifest and – at a broad level – the likelihood and potential financial impact.

Initial conclusions

From this initial work, the following climate risks were considered to be the most significant faced by Company:

- High demand due to heatwaves
- Drought impacting water supply
- High precipitation increasing run-offs and pollutions
- Subsidence causing damage to assets
- Extreme weather causing failures in our production and distribution network

We consider the majority of climate risks faced by the Company will not result in a significant financial impact on the Company, although any risks that result in substantial damage to our assets – such as risks from subsidence – would result in higher capital costs to address. In addition, the characteristics of our service area – for example no coastal regions – also limit to a degree for SES Water some of the climate risks faced by other companies in the sector.

In addition, we are already underway with adaptive actions to address the above risks – for example, to address the risks from high demand and drought noted above, various actions are underway by the Company including ensuring sufficient water storage, pushing forward with our leakage reduction programme, our customer engagement and metering programme and updating and implemented our wider drought plan, which includes future scenario testing and detailed actions.

Further analysis of these climate change impacts will be considered as part of our long-term planning within the PR24 process.

Protecting the river catchments we source our water supplies from is one of our top priorities. We're focused on helping the rivers and wetlands in our area, that provide habitat for nature as well as amenity value to our customers, continue to improve and thrive.

The Environmental Scrutiny Panel

Independent scrutiny and challenge

Our Customer Scrutiny Panel (CSP) and Environmental Scrutiny Panel (ESP) work collaboratively. They provide robust scrutiny and challenge to SES Water to put the long-term needs of customers and the environment first when assessing current performance, strategy and business plans and reporting out to customers, stakeholders and Ofwat.

Both panels include independent members who have expertise in areas such as consumer matters, sustainability and community engagement; as well as representatives from organisations including CCW (the water industry's consumer watchdog), the Environment Agency, local authorities, and environmental and consumer support groups.

The Environmental Scrutiny Panel

The ESP has been operating since April 2020 to scrutinise, challenge and help accelerate environmental ambition, to ensure the needs of the environment are integral to our strategy and operations. The ESP shines a light on long-term environmental performance, while also focusing on scrutinising current operational delivery against the Business Plan. The ESP is Independently Chaired by Alison Thompson and its members have a range of interests and expertise in environmental matters.

Alison Thompson
Chair, Environmental Scrutiny Panel

Chair's Review

Scrutinising performance

In 2021/22, SES Water became the first UK water company to roll out intelligent technology network-wide. This is a real leap forward and should help SES Water deliver its target to cut leakage by 15% over the next three years. The self-learning network can pinpoint problems in near real-time, enabling swift action to ameliorate issues, cutting water waste and safeguarding supply for customers. The ESP will be interested to monitor how this technological intervention converts into results over the coming year.

Another highlight this year has been the Company's work on updating its overall purpose, strategic objectives and associated delivery plans as part of its PR24 business planning, including an increased focus on environmental ambitions. Recently the ESP enjoyed visits to two sites awarded the Wildlife Trusts' Biodiversity Benchmark certificate. SES Water is the only water company to hold such accreditation. The ESP has challenged the Company to think beyond its sites in future to landscape scale approaches that promote nature recovery. With this in mind, the ESP is keeping a wider watching brief on the master-planning process at Bough Beech estate where, in partnership with its neighbour The Commonwork Trust, SES Water

> A highlight this year has been the Company's work on updating its overall purpose, strategic objectives and associated delivery plans as part of its PR24 planning, including an increased focus on environmental ambitions.
>
> **Alison Thompson**
> Chair, Environmental Scrutiny Panel

wishes to better connect people with nature and deliver multiple benefits.

SES Water has fallen short in a number of areas this year. This includes missing its target on the number of properties connected to more than one treatment works by a small margin, and reporting a slight upturn in some of the periods in which it exceeded the hardness target in place for water softening.

More materially, increased levels of customer water use have been sustained since the COVID-19 pandemic. Long-term resilience of water supply is fundamental. Water Resources South East's Draft Regional Resilience Plan, published in January, shows a significant water deficit gap for the region into the future.

SES Water hopes in part to address this through its Universal Metering Programme. It is disappointing that rising supply chain costs, paired with a capped AMP7 cost allowance, mean the company is unlikely now to be able to go beyond its commitment for a minimum of 10% of new meters to be smart, despite previously indicating a desire to do so. The ESP hopes funding can be secured in AMP8 for the meter stock to be upgraded.

In the context of growing affordability challenges, development pressures, impacts of climate change and population growth, the ESP would also welcome more innovative action on water wastage. This could include employing variable water tariffs or new ways to incentivise customers, particularly high-water users, on water efficiency. This would give the ESP more comfort that the Company's pledge – We will provide you with high quality water all day every day can be sustained.

Looking to the future

Next year, SES Water will lock in the approach it takes to the next Price Review in 2024, and therefore the scope of its ambition for 2025-30. Given the urgency of our climate and nature recovery challenges, and the critical role of SES Water in protecting and improving the environment, the ESP will be closely scrutinising company plans, with a view to assessing their social and environmental value to customers and communities – in accordance with Government policy and regulatory strategy. Given the growing cost of environmental improvements, the need to deliver net zero and the cost of living crisis, efficient investment will be critical.

In line with the ESP's advice, SES Water is embedding Environmental Social Governance (ESG) at Board level by establishing a new ESG committee – a move the ESP welcomes. We will also encourage more longer-term planning. The ESP looks forward to robustly challenging the Company's long-term delivery strategy in the context of environmental resilience, alongside reviewing the next Business Plan – both of which will be developed over the coming year.

Alison Thompson
Chair, Environmental Scrutiny Panel

8 July 2022

The Customer Scrutiny Panel

The Customer Scrutiny Panel
The CSP ensures that the interests and expectations of our customers are put at the heart of our activities. The focus of its scrutiny is on delivering the business plan performance commitments; on the way we engage with customers and the service we provide; and on agreed areas of forward focus such as social purpose, community engagement and vulnerability. Independently chaired by Steve Crabb, the majority of the CSP are also SES Water customers.

Steve Crabb
Independent Chair,
Customer Scrutiny Panel

Scrutinising performance

This has been a year of considerable change for both SES Water and for the Customer Scrutiny Panel. In June 2021 Graham Hanson, my predecessor as chair of the CSP, stood down. He made a significant contribution to customer scrutiny at SES Water, bringing expert knowledge of local citizens and a customer perspective from his previous roles in the local community including previous NED for the local NHS Trust, to encourage the panel to bring balanced challenge and debate. Long-standing panel members Martin Hurst (an independent member) and Karen Gibbs (of CCW) also stood down. I'd like to acknowledge all of their contributions and thank them for their service.

In the second half of last year, it became clear that water companies would no longer be mandated to establish customer challenge groups as part of Ofwat's formal price review process as part of 'PR24'. SES Water – like most water companies – decided that its CSP and ESP added value to its operations and the experience of customers and stakeholders that goes beyond meeting basic regulatory commitments, and it would therefore continue to support both panels. At the same time, the CSP and ESP have increasingly been recognised as having a formal role in the strategic, long-term water resource planning process for the South East of England.

> "The Company's investment in a new customer software platform, Aptumo, has been extremely encouraging. The roll-out was very carefully planned and well executed, with minimal disruption to customers."
>
> **Steve Crabb**
> Chair, Customer Scrutiny Panel

In short, tectonic plates that have been quiet for some time – in both the make-up of the Customer Scrutiny Panel and its regulatory basis – have been busily moving around over the past year, and as a result – and to ensure effective succession planning – we've decided to review both the Customer Scrutiny Panel's Terms of Reference and our membership. This is still a work in progress, and akin to shooting at a moving target as it is still far from clear what role customer challenge groups will play in PR24 and therefore what skills will be required, but the over-arching principles are clear: the panel needs greater involvement from people involved in stakeholder organisations such as local authorities, housing associations and charities, and we need to strengthen our ability to constructively challenge the company's customer research and engagement.

SES Water has also experienced a year of considerable challenge and change as it emerged out of the COVID pandemic. Ian Cain and his executive team have a clear vision of what needs to change in order to improve the experience of SES Water's customers and build the kind of real engagement that will be needed going forward, and this is shared by the company's board. I have been extremely encouraged by the board's deep commitment to improving customer-centricity, exemplified by SES Water's new chair, Dave Shemmans.

The company's investment in a new customer software platform, Aptumo, has been extremely encouraging. This should give the executive team high quality data on key aspects of customer experience, from billing accuracy to response times. The roll-out was very carefully planned and well executed, with minimal disruption to customers.

SES Water have also been on the front foot with regard to most of the challenges we have thrown at them this year, from supporting customers in vulnerable circumstances in the current cost-of-living crisis to managing rising levels of customer debt: their responses have indicated that they are working hard to keep on top of the latest thinking in the industry and beyond, tracking leading-edge best practice and looking at ways to apply it locally.

However, there are limits to what a company with 348 employees can achieve, and at times over the past year the company has clearly had to prioritise meaningful change, such as the Aptumo roll-out, over visionary transformation such as faster progress towards the new company purpose and the behavioural change in employees, contractors and customers that will be needed to deliver it.

Looking to the future

Although Ofwat's 'CMeX' customer experience measure is a far from perfect proxy for genuine customer engagement and delivery, it is a useful indicator of SES Water's relative performance compared to other water companies. SES Water aspires not just to move out of the lower end of the table but actually become contenders for 'Champions League' status within the next few years. This is a bold, ambitious goal which we welcome whole-heartedly. It should be possible for a small, locally based, water-only company to translate its understanding of local communities and local challenges into exceptional service and engagement. The challenge is making that happen, and we look forward to continuing to question, scrutinise and generally be the grit in the oyster to help SES Water make that journey.

Steve Crabb
Independent Chair,
Customer Scrutiny Panel

8 July 2022

Our financial performance

“We have continued to be financially resilient in another unprecedented year”

Paul Kerr
Chief Financial Officer

The financial year ended 31 March 2022 has been another challenging year across the industry with the impact of the COVID-19 pandemic still prevalent, coupled with the challenges posed by increasing household costs and the cost of living crisis. The Company's continued focus on operational and financial resilience remains strong, as does delivering for our customers during these tough times. From a finance perspective ensuring our customers remain supported at their time of need, including more than 19,000 customers benefitting from our Water Support Scheme, remains a priority.

Our financial results reflect the continued impact of the pandemic alongside the increasing pressures that we are facing through rising inflation, supply chain costs and the impact the cost of living crisis is having on our customers. A summary of our financial performance is set out on the following pages.

Our financial performance is impacted in the year by a number of key factors and significant one offs;

- During the year we have seen our household revenue decrease with lower volumes used compared to pandemic levels and combined with lower tariffs. Non-household volumes have increased from the prior year but still remain below pre-pandemic levels.
- The pandemic continues to impact our cash collections and in addition we are now starting to see the impact of the cost of living crisis. Despite this, we are seeing a positive impact on our renewed focus to target our older customer debt.
- With rising inflation and supply chain pressures we are facing new challenges across our business particularly in our operational areas with increased chemical and material costs.
- Higher inflation has also increased the cost of our long-term index-linked debt, with an additional £4m being charged in the year. Although indexation is non-cash in nature it increases the value of the loan that is repayable from 2027. Actual cash interest on the loan remains consistent with prior year.
- We re-negotiated the terms of our long-term index linked debt which was originally executed in 2001 to reduce the cashflow pressures on the Company over the next few years. The cost of this re-negotiation of £3.5m is included as a one-off charge in financing expenses.
- An increase in corporation tax from financial year 2023/24 was announced by the Chancellor in the 2021 budget, the tax change was substantively enacted in May 2021 increasing the rate from 19% to 25%, resulting in a one-off deferred tax charge in the year of £13.5m. There was no cash impact in the year of the change in tax rates, which becomes effective for payments from 2023.

Although we continue to hold a strong balance sheet with adequate cash reserves we have increased our access to funding by £25 million to £75 million through our revolving credit facility covering the remainder of our five-year regulatory period to 2025. This is the first step in our refinancing strategy that will continue to ensure that we have appropriately resilient plans in place to ensure the ongoing liquidity of the Company.

We know that delivery of our performance commitments that you can read on page 20 is due to continued investment in our infrastructure. This year we have seen one of our larger capital programmes with key investments in upgrading our household customer billing system, replacing and laying key strategic mains to increase operational resilience and investing in our metering and smart network programme.

During the year we have had some significant achievements including launching Aptumo our new billing system which not only continues our digital transformation of our customer journey but also provides us key insights into how we are performing as a business.

We continue to be transparent about our finances and have for the second year split the regulatory Annual Performance Report from our Annual Report. This separation helps to ensure the information our audience requires is as easy to find and understand as possible. We have this year also published our assurance statements in our Assurance Framework. In addition we continue to publish our 'Keeping It Clear' document that explains our finances in a simple to understand way.

Financial performance

Our financial results are summarised in the table below. For more information refer to the statutory financial statements from page 119.

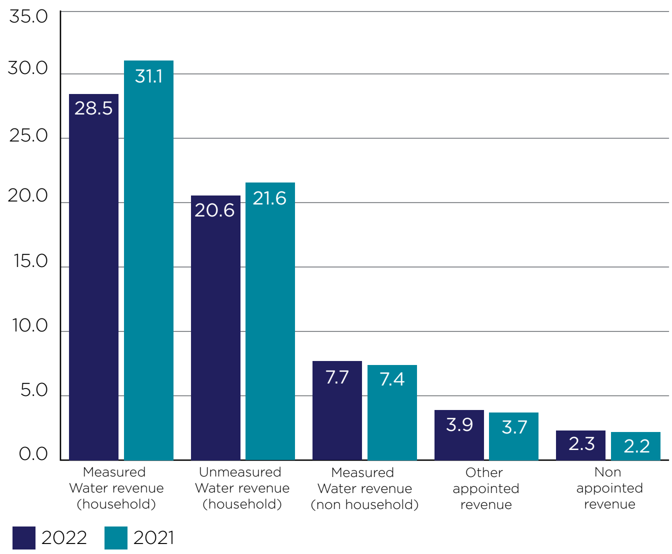
Year ended	2022 £'000	2021 £'000	Change £'000	Change %
Revenue	**62,953**	65,819	(2,866)	(4%)
Operating expenses	**(56,607)**	(54,320)	(2,287)	4%
Other operating income	**3,358**	2,202	1,156	53%
Net impairment writebacks/(losses) on financial and contract assets	**449**	(2,589)	3,038	(117%)
Operating profit	**10,153**	11,112	(959)	(9%)
Finance income	**368**	706	(338)	(48%)
Finance expense	**(15,923)**	(7,950)	(7,973)	100%
(Loss)/profit before tax	**(5,402)**	3,868	(9,270)	(240%)
Tax charge	**(11,935)**	(236)	(11,699)	4,967%
(Loss)/profit after tax	**(17,337)**	3,632	(20,969)	(577%)

Revenue

Our revenue is mainly generated by billing our household and non-household customers for the essential water service that we provide. The prices that we charge our customers are determined by working with our regulator Ofwat on a five year price review process, based upon the costs we expect to incur to operate the business in that period. Our current regulatory period covers 1 April 2020 to 31 March 2025 known as "AMP 7," with 2021/22 being the second year of the five year period.

Total revenue has decreased by 4% to £63.0m (2021: £65.8m). This overall reduction is primarily due a 7% reduction on household measured revenue to £28.5m (2021: £31.1m) due to lower volumes of water consumed compared to the levels seen in 2020 lockdowns and a c4% reduction in tariffs charged compared to prior year. Non-household revenue remained consistent with 2021 levels at £7.7m (2021: £7.4m). The recovery post COVID-19 lockdowns did not fully materialise with many commercial properties remaining empty or at lower occupancy compared to pre-lockdown levels. Under the regulatory model we will be able to recover the shortfalls noted in non-household revenue.

Revenue analysis by type



Year ended	2022 £'000	2021 £'000	Change £'000	Change %
Measured water revenue (household)	**28,461**	31,058	(2,597)	(8%)
Unmeasured water revenue (household)	**20,562**	21,551	(989)	(5%)
Total Water Revenue (household)	**49,023**	52,609	(3,586)	(7%)
Wholesale revenue from retailers (non-household)	**7,726**	7,360	366	5%
Other water revenue	**817**	742	75	10%
Non-water revenue	**3,090**	2,952	138	5%
Non-appointed revenue	**2,297**	2,156	141	7%
Total Revenue	**62,953**	65,819	(2,866)	(4%)

Our financial performance continued

Operating expenses and other operating income

Operating expenses increased by 4% to £56.6m (2021: £54.3m) with the increases primarily being driven by:

- Staff costs increased by £0.9m an increase of 7% to £15.4m (2021: £14.4m) as wages increase in line with inflation and increased resource levels to drive continued and improved performance across both operational and customer metrics.
- Raw materials and consumables increased by £0.4m (14%) to £3.3m (2021: £2.9m) due to the increased supply chain pressure and increase on chemical prices seen across the industry.
- Depreciation increased by £1m (9%) to £11.9m (2021: £10.9m) due to the continued investment in our capital investment programme.

Other operating income increased by £1.1m (50%) to £3.3m (2021: £2.2m) due to £1.9m of insurance receipts (2021: £1.7m) related to damage caused by a chemical spill in 2017 at Elmer Treatment Works, and profit on disposal of assets of £1.3m primarily due to the sale of Woodcote reservoir site in 2022 (2021: £0.6m).

A £0.8m commercial settlement was included in relation to additional opex spend incurred as a result of delays to the Aptumo billing system.

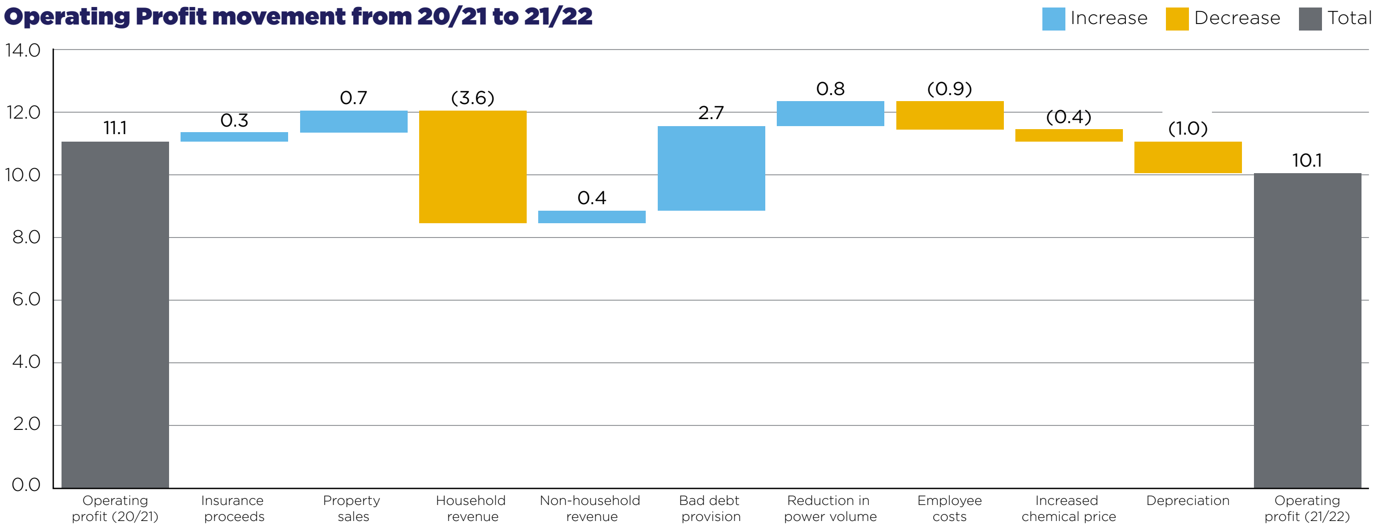
Bad Debt

Bad debt is predominantly driven by customers who are unwilling or unable to pay their water bills. The Company continues to have measures in place to support those customers who are unable to pay their water bills and enhance its cash collections. As noted in the prior year annual report COVID-19 adversely impacted our customers' ability to pay their water bills and as a result the expected credit loss model (bad debt provision) was significantly increased to £7.9m. In 2021/22 we have proactively worked to reduce the older debt through the engagement of debt collection agencies where customer have been able but unwilling to pay their bills. Despite the pressures seen externally with the cost of living crisis we have not needed to increase our provision due to the success we have initially seen in our debt collection strategy.

Operating Profit

As a result, operating profit reduced by 9% to £10.1 million (2021: £11.1m) due to the reduced revenues combined with increased costs noted above and can be summarised in the graph below:

Operating Profit movement from 20/21 to 21/22



Financing Costs

Financing costs increased to £15.9m (2021: £8.0m) a 100% increase due to the impact of high inflation on our index linked bond increasing the charge in the year by £4m. Although inflation is not a cash item in the year, it increases the value of the debt owed to bondholders which is payable in cash instalments to 2031. In addition we renegotiated the terms of the index linked debt with our bondholders to be beneficial for cashflows over the remaining term of the loan; this incurred a commercial fee of £3.5m that is included in the March 2022 financing costs and is payable over the period to 2031.

Key Financial Metrics

Year ended	2022 £'000	2021 £'000	Change £'000	Change
Dividends paid	**3,516**	4,910	(1,394)	(28%)
Capital Expenditure including intangibles	**27,000**	26,492	508	2%
Net pension scheme asset	**25,293**	19,470	5,822	30%
Cash and cash equivalents	**24,102**	25,601	(1,499)	(6%)
Net Debt	**210,202**	186,631	23,571	13%
Interest Cover Ratio	**2.3x**	1.6x		
Regulatory gearing	**72%**	71%		
Bond Gearing	**72%**	77%		
Moody's Credit rating	**Baa2 (stable)**	Baa2 (negative)		

Tax

In 2021/22 we paid contributions to HMRC of £4.6m in business rates, national insurance contributions, PAYE and other taxes. Within the financial year we have not had to pay corporation tax to HMRC due to our interest costs and tax relief generated by our capital investment programme.

An increase in the corporation tax rate from 19% to 25% from financial year 2023 was announced as part of the Spring budget update by the Chancellor. This resulted in a one-off deferred tax charge of £13m from re-calculating our opening deferred tax balances at the new rate, which is included in our reported tax charge of £12m. Deferred tax is an accounting adjustment that reflects differences in timing between when profits are recorded in financial statements and when they are subject to tax. Because of the nature of our business, including our significant capital programme and the long lives of our assets, these timing differences will not reverse for the foreseeable future. This is non-cash in nature in the year and will have minimal cash impact in the foreseeable future.

Dividends

Ordinary dividends paid reduced by £1.4m (2021: £4.9m) to £3.5m and were payable from profits arising from the Company's regulated and non-regulated activities. The Board carefully considered the payment of these dividends in line with our dividend policy, taking into account service delivery for our customers. A full explanation of these dividends payments is provided in the Directors' report on page 108.

Capital Expenditure

During the second year of AMP 7 we invested £27.0m (2021: £26.5m) in our capital investment programme. Key projects include:

- Investment in the ongoing replacement of pipes in our distribution network £6.7m (2021: £5.6m) enabling targeting replacement based on age, condition and performance of our network.
- A further £1.8m (2021: £2.3m) to improve our resilience mains (to ensure water can be efficiently moved around our supply area now, and in the future)
- £0.8m (2021: £0.8m) was spent on extending our network into new housing developments.
- £8.9m (2021: £11.4m) was invested on replacing and upgrading our treatment works, pumping stations, service reservoirs and other operational sites. Bough Beech phase 3 £4.3m.
- A further £3.2m (2021: £2.1m) was invested into our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.
- £3.1m (2021: £0.6m) was invested in IT, including replacing our billing system that went live in October 21.
- Other expenditure on capex including facilities and our laboratories totalled £2.5m (2021: £1.9m)

The capital expenditure noted above is based on an accruals basis for work done in the year, this reconciles to what is presented in the cashflow forecast by removing £0.8m of expenditure where work has been completed but not yet paid. The reconciliation is show in the table below:

Capital Investment (based on work done in year)	£27.0m
Adjustment for Capex incurred but not yet paid	(£0.8m)
PPE and intangibles spend shown in the cashflow statement	£26.2m

Our financial performance continued

Pension scheme

The Company is a member of Water Companies Pension Scheme (WCPS) which is a defined benefit scheme. The SESW scheme closed to future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. Our employees also pay into a defined contribution scheme and the Company offers an attractive top-up contribution to encourage employees to contribute.

In 20/21 we completed the triennial valuation dated 31 March 2020 for the defined benefit scheme. The accounting valuation has been updated to 31 March 2022 by our independent actuary Lane Clark and Peacock. The scheme remains in surplus with a pension scheme asset of £26.3m, (2021: £20.5m) an increase of £5.8m included in the balance sheet regarding the defined benefit scheme. The increase was due to an increase in the yields available on corporate bonds, higher returns on the section's assets and changes to the mortality assumptions included in the valuation, however these increases were partially offset by increases in inflation expectations.

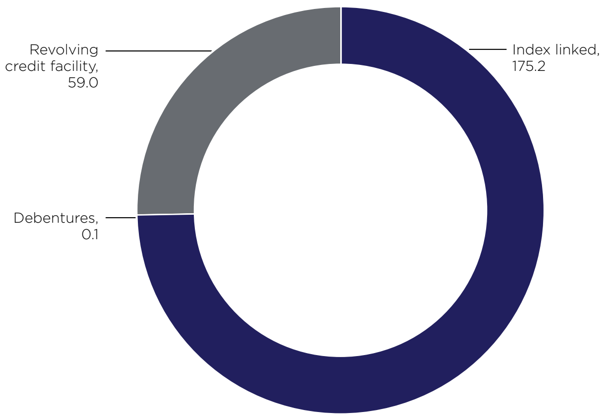
Cash and net debt

The Company held cash and cash equivalents at the year end of £24.1m (2021: £25.6m). Cash from operating activities fell by £5.2m to £9.7m (2021: £14.9m) due to the impact of lower revenues noted as customers returned to lower consumption levels post pandemic lockdowns and non-household consumption remaining lower post COVID-19 recovery.

The Company invested £27m, an increase of 1% on the capital programme of £0.5m (2021: £26.5m) The Company had cash receipts of £11.5m, an increase of £3.4m (42%) compared to the prior year from financing activities.

The Company's net debt at 31 March 2022 is £210.2m, an increase of £23.3m (13%) (2021: £186.6m). This was primarily driven by the increase in the use of our revolving credit facilities which were £59.0m at the year end, an increase of £15.0m (34%) (2021: £44.0 million), to fund our capital programme. The carrying value of our £100.0 million index linked bond increased by £7.1m to £175.2m (2021: £168.2m). This increase was driven by an increase in RPI with an average RPI of 5.8% (2021: 1.2%) and interest charges of £5m (2021: £4.7m).

Types of debt held within SESW



In the year the Company increased its access to funding by increasing the Revolving Credit Facility by £25m to £75m, as a result the Company is expected to have at least 12 months of liquidity. The graph shows our current mix of debt.

Financing ratios and credit rating

During the year we have continued to have constructive conversations with the credit rating agencies, with our focus on financial and operational resilience during another challenging year. In October 2021 Moody's increased their rating of Baa2 to stable outlook (2021: Baa2 Negative outlook.) By maintaining our above investment grade credit rating it allows us to have access to efficiently priced debt as we continue to invest and fund our capital programme, whilst balancing the need to have affordable bills for our customers.

In accordance with our £100.0 million index linked bond we have restrictions on our level of gearing and interest cover ratios (ICR). Our gearing, as measured by the bond agreement, is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. The RCV is indexed by movement in RPI. The ratio as defined by our bond was 71.7% (2021: 78.2%), within the 80% permitted by our covenants. The increase in borrowing is driven by our continued investment in the capital programme in accordance with our Business Plan.

Our interest cover for the year was 2.3x (2021: 1.6x), and our adjusted interest cover ratio (AICR) as defined in the bond agreement (including the indexation charge on the bond) was 1.0x (2021: 1.0x), again within the minimum levels required of 1.00. The reduction in cover is driven primarily by the fall in profits over the year.

Managing Risk

Managing risk is a key activity embedded in our culture

Principal and emerging risks

Risk management is an integral part of our Company management systems and procedures that underpin the delivery of our Company policies. We continually monitor and ensure appropriate mitigation of the risks we face. In this section we put the spotlight on some of our principal and emerging risks and how we manage them.

Our Corporate Risk Register records and ranks risks according to the likelihood of occurrence and magnitude of impact, as well as keeping track of the actions taken to mitigate the risk. Our Audit Committee formally reviews the register twice a year and reports back to the Board on the status of all identified risks and any additional measures that are being implemented.

Emerging new risks are assessed at an early stage so that appropriate controls are put in place. We monitor these new risks closely and they are adopted as principal risks or are incorporated into existing principal risks as appropriate. Some may be superseded by other risks or cease to be a risk as the internal or external situation changes.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of our Company. Commentary below is provided on a selection of the key risks to the Company prior to the adoption of mitigating measures. Emerging risks are new risks, familiar risks in a new or unfamiliar context (re-emerging), trends, innovations and potential game changers.

Principal risk

Cyber attack

What is the risk?

That we may experience loss of data (including personal data), ransomware issues or interruptions to our key operational control systems as a result of a cyber-attack.

Pledge | **Risk after mitigating action**

What does it mean for us?

If we experience an attack that results in the loss of data, the security of our customers and employees' personal information could be compromised and we risk a significant fine under the General Data Protection Regulations (GDPR). If the attack is on our operational control system, it may result is us being unable to provide high quality drinking water to our customers. In this case action would be taken against us by the Drinking Water Inspectorate which would also include a financial penalty.

What are we doing to manage the risk?

We have completed the roll out of the next generation of anti-virus protection across all our users. This includes three layers of security and detects and blocks even the most sophisticated threats in near real time. It is a cloud-based system and runs continually in the background without any impact on the user.

We introduced multi-factor authentication, which requires another layer of identification when accessing our network, for all office-based staff. This is particularly important with the increase in employees working at home due to Covid-19 and is being rolled out across all users.

We have seen a rise in phishing scams with emails being sent to employees becoming more sophisticated and appearing more authentic. To address this, we have enhanced our testing regime. We send staff different emails at different times making it harder for them to identify a potential scam and by sending emails that mimic those sent by the scammers.

We are also tracking how employees respond more closely and can intervene with additional support and training where needed. All new employees receive cyber security training and are immediately included in our testing programme.

We carry out network penetration testing every six months where third party security professionals carry out controlled hacking attempts on our network. This identifies and tests any weaknesses that could be exploited by cyber criminals. No high-risk vulnerabilities were found in our most recent test, but a small number of medium risk vulnerabilities were identified which we are addressing.

The issue of cyber security is regularly reported to the executive management team and is discussed at the Board and Audit Committee. The Board receive cyber safety and awareness training and a full suite of online cyber awareness training is accessible for all employees.

Managing Risk continued

Impact

High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

Principal risk

Reduced availability of employees

What is the risk?

That we may experience a shortage of resource, leading to an inability to operate effectively, due to an event that is outside of Company control, such as the Covid pandemic, or due to factors that result in high levels of employee turnover.

Pledge | **Risk after mitigating action**

What does it mean for us?

We are reliant on the availability of trained operational employees and technical professionals to ensure we continuously deliver high quality water for our customers and meet all of our regulatory obligations, and our employees rely on access to all support services for their personal wellbeing.

What are we doing to manage the risk?

We have measures in place to ensure that the Company is monitoring any emerging concerns and adopting appropriate event management that may include enhanced communications with employees, access to mental health first aiders, ensuring employees are equipped for home working and provision of personal protective equipment.

To promote the recruitment and retention of employees we ensure our employee benefits and conditions of employment remain competitive, we support regular employee engagement, training and continuous professional development. We have a preferred suppliers list of agencies so we can fill short term skills gaps with agency staff/ consultants. We have also reviewed our recruitment processes to ensure we are running them effectively and efficiently, as well as ensuring we reach a wide group of talent in the labour market.

Principal risk

Water supply or water quality failure

What is the risk?

That we experience an operational incident such as a water treatment works failure or major mains burst that results in serious disruption to water supplies, or a failure of internal processes resulting in the distribution of contaminated water.

Pledge | **Risk after mitigating action**

What does it mean for us?

If the main water supply to some areas that we serve is cut off for an extended period of time we would need to provide alternative supplies. In the event of an interruption to supplies we would need to ensure that priority customers such as hospitals, schools and customers with vulnerabilities are provided with adequate water supplies. If the water we distribute is not suitable for consumption, we risk causing illness or concern to customers. Such events could result in us failing to meet our performance commitment targets and receiving a financial penalty, as well as significant negative reputational impact.

What are we doing to manage the risk?

We have established maintenance regimes to ensure optimal asset availability and are in the process of improving resilience across the Company area through the provision of additional strategic mains. Continuous monitoring ensures deficiencies are promptly identified and addressed.

Work is on-going to roll out our intelligent water network. This uses Vodafone's next generation Narrowband Internet of Things (NB-IoT) 5G network which has deeper coverage underground and within buildings; and advanced loggers that leverage the benefits of the NB-IoT network by recording and providing more accurate, consistent and detailed data so we better understand how our network is performing.

We then apply Aquasuite software, which has Artificial Intelligence (AI) and machine learning capability. It takes signals from the network sensors, performing in near real-time, predictive analysis to compare expected with actual performance. Together this combination of new technologies will revolutionise how we monitor, react and carry out maintenance on our network so we reduce the risk of bursts and supply failures, minimising disruption to customers.

We have multiple stage continuous on-line water quality monitoring and automatic shutdown systems at our treatment works and established instrument checking and calibration programmes delivered by competent technicians with regular system testing and laboratory monitoring. Sites are audited and Drinking Water Safety Plans regularly reviewed to ensure water quality risks are fully in control.

Pledges

We will provide you with high-quality water all day, every day	We will provide excellent service, whenever and however you need it
We will provide your service at a fair price and offer help when you need it	We will support a thriving environment we can all rely upon
We will provide you with a service that is fit now and for the future	

Principal risk

Current UK economic uncertainty

What is the risk?	What does it mean for us?
That there is a significant increase in customers not paying their water bills due to high levels of inflation and the escalating cost of living; with our operational cost base elevated.	The cumulative impacts of rising bad debt and increased costs to deliver impact cash flow and restrict the funds available to support the fulfilment of our regulatory duties and impact reputation

Pledge	Risk after mitigating action

What are we doing to manage the risk?

There continue to be a multitude of options available to support customers in paying their bills and there is a clear debt recovery strategy and expert partners engaged to assist with that programme, including a review of all void properties

Recovery plans are in place for all areas where performance needs to improve and efficiency needs to be delivered, with progress presented at monthly senior leadership review meetings.

Principal risk

Climate Change

What is the risk?	What does it mean for us?
That we do not plan for and respond appropriately to the potential risks to water resource availability (due to drought or deterioration in source quality) and ability to supply (due to flooding), or we are responsible for negative impacts on the environment through reduction in biodiversity and high energy and carbon use, resulting in a failure to meet regulatory expectations.	If we do not prepare for and adapt to the potential impacts of climate change we may fail in our pledge to deliver high quality water all day every day for our customers and therefore fail in our regulatory obligations and commitments impacting our reputation and with the potential for financial penalty.

Pledge	Risk after mitigating action

What are we doing to manage the risk?

We have established multiple workstreams to ensure we are assessing the potential areas of challenge and risk and preparing for the additional workload and investment needed, including the requirement to appoint appropriately qualified resources. Key measures of the workstream deliverables are being reported and monitored, with specific support and engagement through the Environmental Scrutiny Panel and Board.

Managing Risk continued

Significant External Factors impacting multiple risks

COVID-19

What is the risk and what does it mean for us?	Bad debt increase
The COVID-19 pandemic continued to have an impact on our operations through 2021 and into 2022 and key areas of influence are noted below.	This risk remained very high due to the financial impact the pandemic continued to have on some household customers and their ability to pay their water bills.
Staff absence and staff retention	**Penalties from non-delivery of business plan performance commitments**
Whilst the risk of staff absence due to COVID-19 remained high throughout much of the year we saw a lower level of absenteeism than projected and routine operational delivery was not negatively impacted. We continued to manage the impact as an event and were particularly mindful of the impact on the mental health and wellbeing of our employees when both working at home and during re-mobilisation to the office. Contrary to the position in the early stages of Covid-19 when employees were nervous about seeking new opportunities, we are now faced with quite high levels of turnover as employees reconsider their options and work-life balance.	COVID-19 continued to impact our ability to make as much progress against some of our performance commitments in the second year of the business plan period as expected. Lockdowns and social distancing requirements stopped us carrying out some non-essential activities. In particular, our work to reduce household consumption was impacted, as well as the next phase of our network resilience programme.

Significant External Factors impacting multiple risks

Conflict in Ukraine

Alongside the consideration of the impact of the conflict on the operational risk to our Company, we have conducted a review of our suppliers to ensure we comply with relevant sanctions legislation. A summary of that review has been presented to the Audit Committee and confirms that while we have a small number of suppliers based outside of the UK, none are directly linked to Russia. We are continuing to monitor the intelligence available as to the source of raw materials used in the manufacture of one of the chemicals critical to water conditioning that is utilised across the water industry.

Emerging risks

Supply Chain Fragility	Rising Inflation and cost of living
The compounding impact of Brexit, COVID-19 and the conflict in Ukraine results in increased disruption to supplies putting the ability to supply wholesome water at increased risk or significantly increasing costs to deliver.	Whilst considered as an overriding contributory factor in the most recent review of the relevant risks in the register, further significant rises in inflation and the cost of living may warrant specific consideration and mitigation strategies.

Board oversight of risk

Board

Audit Committee

Bi-annual review of Corporate Risk Register

Adhoc deep dive reviews of principal risks to understand the full nature of the risk and the controls adopted to reduce the impact and likelihood of occurrence

Executive Leadership Team

Formal bi-annual review of Corporate Risk Register considering overall operational performance, incidents and events, outcomes of audits and internal process reviews, changes in regulatory requirements, impacts on finances, significant employee matters, industry reputation and external influences of preceding six months. Includes a review of the effectiveness of mitigating (or control) actions and emerging risks

Monthly performance meetings include a specific review of actual and potential risk, including risk to performance commitment delivery, operational integrity, impact on consumers, reputation and finances

Company policies

Including Quality Policy; Environmental Policy; Security Policy; Health and Safety Policy, all of which specifically refer to the need to manage of risk

Quality and Environmental Management System and Procedures

Procedure for risk management defines responsibilities, principles for ranking risks and identifies registers that exist to address departmental and other specific areas of risk across the Company

- Departmental registers (ability to deliver departmental objectives in support of Company objectives)
- Project risk registers
- Environmental aspects and impact assessments
- Health and safety risk assessments
- Drinking Water Safety Plans
- Operational risk assessments, for operational interventions

Internal controls including staff training, project management, audit and inspection

Values

Principal and emerging risks

Managing risk is a key activity embedded in our culture

Our principal risks are provided in the table below, grouped into categories that consider financial and reputational impacts. Key emerging risks are also shown, which have the potential to increase in significance, and we have also indicated where COVID-19 has a specific impact on our risks. We continually monitor all of our risks and a formal register ranks them and keeps tracks of mitigations.

Risk	Pledge	Effect	Mitigations	Risk after mitigating action
Business systems				
Cyber attack		Interference with operational controls Loss of personal data	– Multiple layer security – Controlled access to Company systems – Participation in expert forums – Regular testing and enhancement of security measures – Increased employee awareness training	
Non-compliance with legal obligations		Failures lead to enforcement action and reputational damage	– Employee training and awareness – Formal processes for compliance with market codes – Increased dedicated resources – Independent audit assurance	
Failure of billing system		Temporary loss of revenue Poor customer experience	– Billing system replaced – Formal support from system provider – Resilient IT infrastructure – Adequate liquidity for temporary loss of billing capability	
Inability to adapt to impact of climate change		Failure to meet regulatory expectations Environmental impact affecting water resources Financial impact of inadequate investment	– Specific environmental performance commitments in our business plan – Creation of a new Environmental Scrutiny Panel – Dedicated Energy Strategy Committee – Board leadership through a new environmental, social and governance strategy (ESG)	
Physical assets				
Water supply shortage due to drought		Customer demand not met	– Detailed water resource management planning including at a regional level – Maintaining ability to treat peak demand at treatment works – Resilience and flexibility of network – Roll-out of universal metering programme – Water efficiency programme	
Large scale water supply or quality failure, including by deliberate acts		Disruption to supplies Failure of statutory duty	– Increase in prosecutions for illegal connections – 24/7 manned Control Room and standby arrangements – Detailed control procedures and automated treatment processes – Security measures at all sites – Asset flood protection – Extensive sampling regime & in-house laboratory – Targeted asset maintenance and investment – Increase in number of customers who can be supplied by more than one treatment works	
Supply chain fragility		Increased costs and potential impact to ability to supply wholesome water	– Framework contracts, Industry intel, Event management and forward planning	

Impact

High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

Pledges

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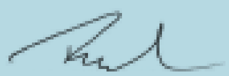
- We will provide excellent service, whenever and however you need it
- We will provide your service at a fair price and offer help when you need it
- We will support a thriving environment we can all rely upon
- We will provide you with a service that is fit now and for the future

Risk	Pledge	Effect	Mitigations	Risk after mitigating action
People				
Absence of large numbers of staff		Failure of normal business operations	– Health benefits including flu injections offered to employees – Staff engagement and consultation to avoid industrial action – Focus on health, safety and wellbeing of staff – Cross-training and succession planning – Annual disaster recovery exercises – Industry mutual aid agreements	
Failure to recruit, retain and develop high quality staff		Degradation of service to customers and business success	– Competitive employment conditions and employee benefits – Investors in People silver recognition – Performance-related pay for senior employees – Use of expert recruitment partners – Staff recognition schemes – Training and development – Annual employee engagement survey – Hybrid working	
Financial				
Penalties for not delivering regulatory performance targets		Lower revenue recovered from customers Reputational damage including the impacts of not achieving our C-MeX and D-MeX targets	– Improvement and recovery plans in place. This includes improving services to all our customers, including developers, through targeted action plans and supplemented by system improvements through the implementation of a new billing system – Dialogue with regulators including representations on specific impacts of the pandemic	
Resilient financing		Insufficient funding to fulfil duties Failure to meet efficiency targets Increase in borrowing costs breaches financial covenants	– Updated totex plan in place – Reviewing optimal financial arrangements to ensure gearing remains at an acceptable regulatory level – Credit agency liaison – Detailed treasury controls at key measurement points – Adequate reserves in place	
Customer participation				
Increase in bad debt		Loss of revenue, reducing liquidity with increased reliance on debt	– Variety of bill payment support options offered – Regular reviews of cash collection and debtor rates – Recovery plan in place – Payment of deferred wholesale charges from retailers	



The Strategic Report was approved by the Board of Directors on 8 July 2022 and signed on its behalf by Paul Kerr, Chief Financial Officer

UK Corporate Governance Code Index table

The table below sets out where the key content can be found in this report:

1.
Board leadership and Company purpose

The role of the Board is to provide leadership and to review the overall purpose and strategic development of the Company. The purpose of the Company is to supply our customers with the highest-quality water all day, every day in a reliable and safe way, and to do so in a manner that reflects our long-term commitment to serve our local community and environment. We believe it's not just our duty to supply water, but to use it as a force for local good. That's why we are doing all we can to protect, improve and enrich our natural environments, for our customers and generations to come. As a Board we strive to ensure that the Company's purpose is embedded in every decision that we make, as well as the decisions and actions of employees.

Read more on pages 82, 83, 86 and 87

2.
Division of responsibilities

The division of responsibilities across the Board is a key factor in the ability of the Board to function effectively and efficiently throughout the year.

Clarity of such roles and responsibilities, and ensuring the specific duties for Board members are defined, and such members are held accountable in their responsibility areas, is of prime importance to the Board. In particular, the Board ensures that there is a clear division of responsibilities between the Chair and Chief Executive Officer, and the roles of the Chief Financial Officer & Company Secretary, together with the senior independent non-executive director, are well defined.

Read more on page 112

3.
Composition, succession and evaluation

The Board will only function effectively if it can benefit from the varied skills and experience of its independent non-executive directors and Chair. In addition, through the Nomination Committee, the Board has a thorough and considered approach to succession planning within the organisation, both at Board and senior management levels. Also, it is vital to continuous improvement that the Board members are evaluated on an annual basis, and that the overall effectiveness of the Board is also regularly evaluated.

Read more on pages 79 and 80

4.
Audit, risk and internal control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. This is vital for the proper functioning of the Company, as this allows the management of the risk of failure of the Company's business objectives. Such a system ensures that the Company has in place effective control environment, risk management and information systems, clearly defined control procedures and a regularly reviewed monitoring system.

Read more on page 64

5.

Remuneration

The Remuneration Committee of the Board is key for providing a remuneration framework for the Board members and senior management team, including the design of targets on bonus and long-term incentive plans, and their ongoing evaluation. In particular, the Committee has focused on implementation of the recently updated executive remuneration policy, strengthening the link between executive pay and delivery for customers, in both the areas of annual bonus and long-term incentive plans.

Read more on pages 94 and 107

6.

Compliance statement

As part of our own governance framework, we have applied the Principles of the 2018 UK Corporate Governance Code (the 'Code') and complied with its provisions other than:

- Board composition: Provision 11 of the Code states that at least half the Board, excluding the Chair, should be independent non-executive directors. We have three independent non-executive directors and comply with the Ofwat objective in this area, as explained on page 74
- Chair's independence: Provision 9 of the Code states the Chair should be independent at the time of appointment. The circumstances around the appointment of the previous Chair are explained on page 77 along with the succession to the new chair
- Given that Dave Shemmans, under the FRC code, is no longer considered independent upon his appointment as Chair of the Board, there was a short period of time (from 23 March 2022 to the appointment of Rebecca Wiles on 26 May 2022) where the Audit Committee membership was not fully independent, the majority of the Nomination Committee's membership was not independent and where the independent non-executive directors did not form the single largest group of the Board. This was rectified by the appointment of Rebecca on 26 May 2022, and in the intervening period the directors did not consider the decision making of the Board and its committees to be adversely impacted.
- Provision 38 of the Code states the pension contribution rates for executive directors should be aligned with those available to the workforce. The policy for incumbent directors and any new appointments is set out on page 98 in the Remuneration Report

Read more on page 94

Our Board of Directors

Chair

Dave Shemmans
Chair, non-executive

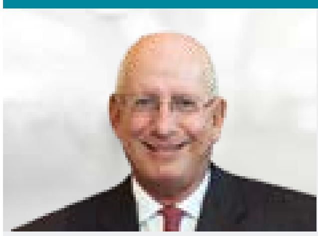
Committee membership

- Chair of Health, Safety and Wellbeing Committee
- Member of Audit Committee (resigned from Committee on 23 March 2022)
- Chair of Nomination Committee
- Member of Governance Committee

Skills and experience

Dave was elected Chair in March 2022 having been a non-executive director on the Board since 1 September 2014. Dave joined Ricardo plc, a global engineering consultancy, in 1999 and was Chief Executive up until 2021. Prior to joining Ricardo he was Operations Director and co-founder of Wavedriver Limited (a subsidiary of PowerGen plc). He has also gained consulting and management experience in both listed and private companies. Dave holds a degree in electronics and is a graduate of the Harvard Business School.

Chair up to March 2022



Jeremy Pelczer
Chair, non-executive

Skills and experience

Jeremy was elected Chair in April 2013 and stepped down from the position in March 2022 after three consecutive terms, over nine years.

Executive directors

Ian Cain
Chief Executive Officer

Committee membership

- Member of Nomination Committee
- Member of Governance Committee
- Member of Energy Strategy Committee
- Member of Health, Safety and Wellbeing Committee

Skills and experience

Ian joined the Company in February 2020. Having spent 27 years at British Gas and Centrica, serving as Managing Director from 2008 to 2013, he moved into the water industry as Managing Director of Thames Water Retail Businesses and Group Customer Service until April 2017. Prior to his appointment as Chief Executive Officer here, he held the position of Chief Executive Officer at iSupplyEnergy and has also supported a number of utility and service organisations with their transformation agendas as an independent advisor.

Paul Kerr
Chief Financial Officer & Company Secretary

Committee membership

- Member of Governance Committee
- Member of Energy Strategy Committee

Skills and experience

Paul is a chartered accountant and joined the Company in April 2018. His previous role was as Chief Financial Officer for Thames Water's wastewater division, a role he moved into in April 2015 following nearly two years as Group Financial Controller. Prior to that, he worked for PricewaterhouseCoopers LLP (PwC) for a number of years, including ten years in San Francisco.

Independent non-executive directors

Murray Legg
Senior non-executive director

Committee membership
- Chair of Audit Committee
- Chair of Governance Committee
- Chair of Energy Strategy Committee
- Member of Remuneration Committee
- Member of Nomination Committee

Skills and experience
Murray is a chartered accountant who spent 35 years with PwC in the UK, where he held a variety of senior management, governance and client roles. As a partner, he spent 24 years auditing and advising major UK utilities and a variety of listed and unlisted companies in other sectors. From 2005 to 2013 he was a member of the PwC international network's Global Governance Board, and he also served on the PwC UK firm's governance body. He joined the Board on 1 October 2015. Murray is also Chair of GlobalData plc.

Jon Woods
Non-executive director

Committee membership
- Chair of Remuneration Committee
- Member of Audit Committee
- Member of Nomination Committee
- Member of Governance Committee

Skills and experience
Jon is a commercial leader specialising in sales and marketing, who has spent most of his career with some of the world's most successful food and drink companies – Cadbury Schweppes, AB Inbev and The Coca Cola Company. Jon currently serves as General Manager of Coca-Cola Great Britain and Ireland. Jon joined the Board on 1 March 2016.

Shareholder-nominated non-executive directors

Ken Kageyama
Non-executive director

Committee membership
- Member of Governance Committee

Skills and experience
Ken joined the Board on 1 June 2021. He joined Sumitomo Corporation in 1991 and has held positions in water and energy infrastructure.

Kenji Oida
Non-executive director

Committee membership
- Member of Governance Committee
- Member of Energy Strategy Committee

Skills and experience
Kenji joined Osaka Gas in 1988 and has held various positions, including investment risk management and overseas downstream businesses. He joined the Board on 1 May 2019.

Joining the Board

Rebecca Wiles
Non-executive director

Skills and experience
Rebecca is a geoscientist by background and brings more than 30 years experience working in the energy industry for BP. During her career she held a number of executive roles most recently leading technology innovation, development and early deployment. She joined the Board on 26 May 2022.

The Board's Code on principles of good governance

The Board has a Code on principles of good governance and assesses compliance with the 2018 Code on an annual basis. The Board takes its obligations for good corporate governance extremely seriously and applies standards appropriate to the nature and ownership structure of the business. These standards are kept under continuous review and will be amended in line with business developments and to reflect best practice.

The Code is based on five principles which are detailed below alongside the annual assessment of compliance.

1. Acting as if it is a separate plc
The Board will govern the Company in accordance with the standards applicable to an independent public company in the UK, focusing exclusively upon the long-term interests of the Company. Subsequent principles in this Code define what this overall principle means in particular areas.

The Board considers it complies fully with the principle of governing the Company in accordance with the standards applicable to an independent public company in the UK apart from the exceptions highlighted on page 71

The Board has defined matters it reserves to itself and has full powers to make decisions on behalf of the Company.

The Board has established committees to consider key aspects of corporate governance, and has also maintained a Governance Committee which has considered Ofwat's Board Leadership, Transparency and Governance (BLTG) 2019 objectives, ongoing feedback from Ofwat on implementation of these objectives, together with updates to the Code and related guidance from the FRC. Final decisions affecting the Company have continued to be made by the Board.

2. Transparency
The Board considers we comply with the Disclosure and Transparency Rules and seek to explain the way in which the Company is governed in an open, accessible and balanced manner. This will include the relationship of the Company with any associates, including holding companies.

The Company has made disclosures in this Annual Report which meet the requirements of the Code. The terms of reference of its main Board committees are published on the Company's website. The relationship of the Company with its associated companies is set out on page 5.

3. Board and senior management skills
The Board will maintain an appropriate balance of skills, experience, independence and knowledge of the Company and will consider these factors in making appointments and in assessing Board performance.

The Board's Nomination Committee considers the composition of the Board and the skill and experience required from new appointments. The current Board contains members with a mix of experience and expertise and significant experience of other plc and leading companies' boards.

All new directors receive appropriate induction. The Board formally reviews its performance every year, utilising an external facilitator every second year to enable this review. The progress on the actions arising from this year's most recent external Board effectiveness review is provided on page 79.

The Board considers it complies with the principle of maintaining an appropriate balance of skills, experience, independence and knowledge of the Company.

4. Independent representation
The Board will ensure that directors independent of management and shareholders are the single largest group on the Board and any of its committees.

The Board has three non-executive directors who are independent of management and shareholders, one of whom has been appointed as the senior independent non-executive director able to act inter alia as a channel for Board communication with regulators. The Board also comprises two executive directors, two shareholder representatives and a chair. Dave Shemmans replaced Jeremy Pelczer with effect from 24 March 2022 as the independent Chair. Jeremy Pelczer had a connection with a shareholder prior to his appointment and the Board continued to find him independent of character during his tenure as Chair. Independent non-executive directors continue to form the largest single group on the Board, although given that Dave Shemmans, under the related FRC code, is no longer considered independent upon his appointment as Chair of the Board, a short period existed where the independent non-executive directors did not form the largest single group on the Board (from 23 March 2022 to the appointment of Rebecca Wiles on 26 May 2022). The Board considered Dave independent of character to continue to perform his duties during this brief period until Rebecca's appointment, and therefore considered there were no adverse impacts to the Board's decision-making during this short period.

5. Board committees

The Board will maintain as a minimum Nomination, Audit and Remuneration committees on which independent non-executive directors will form a majority, and also has Energy; Pensions; Governance; Health, Safety and Wellbeing and Financing committees which have independent non-executive director attendance and chairs. The Board also created a formal Environmental, Social and Governance (ESG) Committee in 2021/22, building on the focus by management on ESG matters in recent years, and reconstituted its Price Review Committee in light of the pending PR24 Business Plan submission.

The Company's ultimate holding company in the UK also applies a code on governance, which is published on page 85.

The Board considers it has fully complied with the main principles of the Code and its application. Any reasons for not applying specific provisions of the Code are described on page 71.

Consideration of Ofwat's Board Leadership, Transparency and Governance objectives

The Board continues to be heavily involved in ensuring the Company adheres to the 2019 BLTG objectives from Ofwat. This includes building on the substantial work performed in previous years to enhance the internal and external transparency of Board matters and key decisions throughout the organisation, and takes into account the recent April 2022 report from Ofwat in this area. The Board's assessment of the performance against these Ofwat leadership objectives is provided in the Annual Performance Report 2022.

Role of the Board

The Company is controlled through its Board of Directors. The Board's main role is to ensure the business is run properly in accordance with its regulatory and other obligations for the benefit of its customers and to create long-term value for shareholders. In fulfilling this role, the Board approves the Company's purpose, strategic objectives and ensures the necessary financial and other resources are made available to enable management to meet those objectives. The Board, which meets at least six times a year, has reviewed and agreed a schedule of matters reserved for its approval.

The matters reserved for Board approval are as follows:

Strategy and management, including:

- Responsibility for the overall management of the Company
- Approval of the Company's purpose and long-term objectives and commercial strategy
- Approval of business plans and other major submissions as part of regulatory price reviews
- Responses to Draft and Final Determinations of regulatory price reviews
- Approval of the annual operating and capital expenditure budgets and any material changes to them
- Oversight of the Company's operations ensuring competent and prudent management, sound planning, and compliance with statutory and regulatory obligations
- Review of performance in the light of the Company's strategy, objectives, business plans and budgets, and ensuring any necessary corrective action is taken
- Approval of annual reports to Ofwat, annual price rise submissions, and any other major submissions to Ofwat, including appeals against significant regulatory decisions, including applications for interim price determinations
- Extension of the Company's activities into new business or geographic areas
- Any decision to cease to operate all or any material part of the Company's business

Structure and capital, including:

- Changes relating to the Company's capital and financing structure
- Major changes to the Company's corporate and funding structure
- Changes to the Company's management and control structure
- Any changes to the Company's regulatory structure

Financial reporting and controls, including:

- Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results
- Approval of the Annual Report and accounts, including the corporate governance statement and remuneration report
- Approval of the dividend policy
- Declaration of the interim and final dividends
- Approval of any significant changes in accounting policies or practices, including tax matters
- Approval of treasury policies including foreign currency exposure and the use of financial derivatives

Maintenance of a sound system of internal controls and risk management, including:

- Receiving reports on, and reviewing the effectiveness of, the Company's risk and control processes to support its strategy and objectives
- Undertaking an annual assessment of these processes
- Review of the principal and emerging risks affecting the Company, and the mitigating actions
- Approving an appropriate statement for inclusion in the Annual Report

The Board's Code on principles of good governance continued

Approval of significant projects and contracts above agreed levels, including:

- Major capital projects (above the levels of authorisation delegated to management)
- Contracts which are material strategically or by reason of size, entered into by the Company in the ordinary course of business, including new borrowings facilities
- Contracts of the Company not in the ordinary course of business, including any material foreign currency transactions and acquisitions or disposals
- Investments in other businesses, including the acquisition or disposal of interests of shares of any company or the making of any takeover offer

Board membership and other appointments, including:

- Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee
- Ensuring adequate succession planning for the Board and senior management
- Appointments to the Board, following recommendations by the Nomination Committee
- Selection of the Chair of the Board and the Chief Executive Officer
- Appointment of the senior independent non-executive director
- Membership and chairmanship of Board committees
- Continuation in office of directors at the end of their term of office
- Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the Company, subject to the law and their service contract
- Appointment or removal of the Company Secretary
- Appointment, reappointment or removal of the external auditor, following the recommendation of the Audit Committee

Remuneration, including:

- Determining the remuneration policy for the directors, Company Secretary and other senior executives
- Determining the remuneration of the non-executive directors, subject to the articles of association

Delegation of authority, including Board committees and division of responsibilities between the Chairman and the Chief Executive Officer:

- The division of responsibilities between the Chairman and the Chief Executive Officer which should be in writing
- Approval of terms of reference of Board committees
- Receiving reports from Board committees on their activities

Corporate governance matters, including:

- Undertaking a formal and rigorous review of its own performance, that of its committees and individual directors
- Determining the independence of directors
- Considering the balance of interests between shareholders, employees, customers and the community
- Review of the Company's overall corporate governance arrangements
- Receiving reports on the views of the Company's shareholders

Approval of policies, including:

- Code of Conduct and Business Ethics
- Equality, Diversity and Inclusion policy
- Health and safety policy
- Environmental policy
- Corporate social responsibility policy
- Charitable donations policy

Other matters, including:

- Approval of any circulars, prospectuses or listing particulars
- Approval of press releases concerning matters decided by the Board
- The making of political donations
- Approval of the appointment of the Company's principal legal advisers
- Prosecution, defence or settlement of litigation, involving above £1m or being otherwise material to the interests of the Company
- Approval of the overall levels of insurance for the Company including directors' and officers' liability insurance
- Major changes to the rules of the Company's pension scheme, or changes in the fund management arrangements
- This schedule of matters reserved for Board decisions

As noted above, this comprehensive list of reserved matters provides the Board of the regulated water company full control of both business performance and strategy.

No matters are reserved solely for the shareholders, and none of the matters above are reserved to any intermediate holding company. Any matters which are properly of concern for shareholders are openly discussed with the Chair of the Board and the full Board. In 2021/22, this has included shareholders' views on customer, health and safety, operational and financial performance of the Company during the second year of the COVID-19 pandemic.

Roles and responsibilities

The division of responsibilities between the Chair and the Chief Executive Officer is clearly defined and has been approved by the Board. The list below details their individual roles and responsibilities and highlights the specific duties of our senior independent non-executive director and our Company Secretary.

Chair – Dave Shemmans is responsible for:

- The effective operation, leadership and governance of the Board
- Ensuring the effectiveness of the Board
- Setting the agenda, style and tone of Board discussions, including ensuring a focus on strategic and business critical decisions
- Ensuring all directors make an effective contribution to the Board through debate and discussion, balancing the executive, independent non-executive and shareholder-nominated non-executive contributions
- Ensuring directors receive accurate, timely and clear information

Chief Executive Officer – Ian Cain is responsible for:

- Development of the Company's purpose and strategic plans for consideration by the Board
- The performance of the Company in line with the strategy and objectives agreed with the Board and under powers delegated by the Board
- Ensuring the Board is supplied with information relevant to its role
- Leading executive directors and senior management in dealing with the operational requirements of the business
- Providing clear and visible leadership in business conduct

Chief Financial Officer & Company Secretary – Paul Kerr is responsible for:

- Under the direction of the Chair, ensuring effective information flows to the Board and its committees, and between senior management and non-executive directors
- Advising the Board, through the Chair and Chief Executive Officer, on all governance matters
- Securing, where appropriate, independent professional advice for directors at the Company's expense
- Facilitating induction activities for new directors and assisting with their agreed development needs
- Managing key financial and regulatory accounting, reporting and control matters, together with ensuring adherence to statutory and regulatory requirements

Senior independent non-executive director – Murray Legg is responsible for:

- Acting as a 'sounding board' for the Chair and as an intermediary for other directors
- Acting as lead contact for the independent non-executive directors with Ofwat
- Leading the Board's annual assessment of the Chair's performance
- Leading engagement with and oversight of the external financial and non-financial auditors

Composition of the Board

The Board benefits from the varied skills and experience of its independent non-executive directors and Chair. Further details of the composition of the Board and recent changes to the Board are detailed in the Nomination Committee report on page 86.

The Company has a policy that a register of directors interest is maintained and updated on a continuous basis by the Company Secretary. This register is presented and reviewed at the start of each Board meeting to ensure any conflicts of interest are readily identified and addressed. The proactive consideration of this register and the emphasis placed by the Board Chair on the accuracy and consideration by all Board members of their external interests, means any potential conflicts can be addressed in advance if needed. In 2021/22, no such conflicts of interest were identified.

Independent non-executive directors

The independent non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The Board considers that they have always been of sufficient calibre and number to ensure that their views carry significant weight in the Board's decision-making. The Company has found that the composition of the Board, with its mix of executive, independent non-executive and shareholder nominated non-executive directors, has proved effective in ensuring that all stakeholder interests can be addressed and decisions taken by the Board on all matters of strategy, policy and planning affecting the business.

Significant commitments of the directors held outside of the Company are disclosed prior to appointment and any changes are disclosed over the duration of the appointment. Current appointments are disclosed on page 72. All directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and the position in practice is reviewed as part of the annual review of Board effectiveness.

Jeremy Pelczer, the previous Chair, was not listed as independent as he was nominated by Sumitomo Corporation on its acquisition of the Company, but the Board has continued to find him independent of character. This independence of character, action and decision-making, exemplified in the manner in which Jeremy conducted himself as part of the Board, and was complemented by the powers reserved to the Board as noted above, together with the inherent strong independence based on the composition of the Board.

The Board's Code on principles of good governance continued

During 2021/22, examples of where Jeremy exhibited this independence of action and decision-making included the manner in which he handled the internal review of Board effectiveness and his utilisation of the senior independent non-executive director to conduct an objective process for determining the next Chair of the Board.

Dave Shemmans was considered fully independent by the Board upon his appointment as a non-executive director in September 2014, although under the related FRC code he is not considered independent when appointed to Chair of the Board.

The Chairman meets with the independent non-executive directors at least twice yearly without executive directors present and outside of the Board environment. The directors have a right of access to the advice and services of the Company Secretary and have the opportunity to take independent, professional advice in the course of their duties at the Company's expense.

Day-to-day conduct of the Company's business is entrusted to the executive directors and their senior management colleagues. The Board receives monthly management reports and operates a system of review against strategic objectives and targets.

The non-executive directors are not employees of the Company.

Statement of directors in performance of their statutory duties in accordance with statutory duties of s 172(1) of the Companies Act 2006

The directors have acted in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- The likely consequence of any decision in the long term
- The interest of the Company's employees
- The need to foster the Company's business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the company to maintain a reputation for high standards of business conduct
- The need to act fairly between members of the Company

How does the Board engage with stakeholders?

The Board will sometimes engage directly with certain stakeholders on certain issues, but the breadth of our stakeholders means that engagement often takes place at an operational level.

The Board considers and discusses information from across the organisation to help it understand the impact of the Company's operations on the interests and views of our key stakeholders. It also reviews purpose, strategy, financial and operational performance, as well as information covering key risks, legal matters and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting and through presentations by management at Board meetings.

As a result of these activities, the Board has an overview of engagement with stakeholders and other relevant factors, which enables the directors to comply with their legal duty under s172 of the Companies Act 2006.

Engagement in action – our ongoing responses to the COVID-19 pandemic

There have been various examples of this level of engagement with our stakeholders throughout the year by the Board, including participation in site visits with employees, engagement with industry and regulator representatives (such as Ofwat) at Board meetings, and the participation by our non-executives at industry forums. In addition, Board deep dives and training sessions continue to be used for discussion with experts in areas such as Competition law.

However, as in the prior year, the best example of such engagement (in a manner that was wholly consistent with the Companies Act requirements) was the continued work performed by the Board during the second year of the COVID-19 pandemic. This work included ensuring that:

- Management plans to deal with the COVID-19 pandemic continued to take into account the long-term impact to the Company of the pandemic for our customers, employees and other stakeholders ensuring that any decisions taken to handle the crisis – such as ensuring financial resilience by extending credit facilities or deferred capital projects due to accessibility issues – struck the right balance between short-term solutions for our customers and long-term concerns, such as overall business resilience
- Our employees continued to be fully engaged on the plans for handling the pandemic, especially during the end of the second year of the pandemic when a lifting of restrictions commenced. The Board ensured that senior management continued to meet weekly on COVID-19 matters (led by the wholesale directors as the incident controller), followed by individual team debriefs by each senior manager. A measured and considerate lifting of COVID-19 restrictions was therefore carefully relayed to employees, supplemented by virtual sessions from directors (such as the monthly open forum led by the Group CFO) and an up-to-date FAQ document available to all employees

- The plans to lift restrictions at the end of 2021/22 took into consideration the concerns and viewpoints of our customers and other stakeholders, ensuring that priorities and focus points for our most vulnerable customers were considered as part of our actions during the pandemic. The independent Customer Scrutiny Panel (CSP) was kept apprised of the plans to exit from our COVID-19 restrictions and any potential customer impacts
- Our actions in response to the ongoing COVID-19 pandemic always took into account the impact of the Company's operations on the community and environmental. For example, the reopening of our education centre at Bough Beech in early 2022 was taken after due consideration of wellbeing concerns for all involved. The Environmental Scrutiny Panel, similar to the CSP above, was also kept informed during the year of such actions, ensuring that the appropriate considerations were made when lifting our pandemic restrictions for the protection of the environment and our local community

As the Board of Directors, our intention is to behave responsibly and ensure that management operates the business in a responsible manner, operating within the highest standards of business conduct and good governance expected for a business such as ours and in doing so contributes to the success of our plans as we exit the COVID-19 pandemic.

As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally so that they, too, can be aligned to our responses during the second year of the pandemic.

Engagement in action – our workforce

Our executive directors have significant daily interaction with our workforce from the nature of their roles in the Company, which, due to the pandemic, was managed for much of the year via virtual meetings to ensure continuity of communications. However, the non-executive directors regularly engage directly with our employees, via visits to our treatment sites following the recent lifting of COVID-19 restrictions or from regular presentations at our Board meetings from members of the workforce.

One of our independent non-executive directors, Dave Shemmans, was designated by the Board to be the workforce representative from the Board. In this role, Dave attends at least one meeting per year with our employee representative forum (the 'Joint Negotiating and Consultative Committee' or 'JNCC'), in addition to his other regular interactions with the workforce (such as from his site visits at the Woodmansterne Treatment Works as part of his oversight role of capital projects).

From the JNCC discussions, Dave continued to provide the Board with a view – separate from executive management – of the culture of the business and workforce, the areas of concern that management are working to address, and the successes and morale of the workforce during the year. His work has allowed the Board to ensure that due regard has been provided on employee interests of the key decisions during the year by the Board, particularly during the second year of the COVID-19 pandemic. Such decisions in the year have included continuing to manage the workforce through the COVID-19 pandemic, approval of the new 1-year pay deal for the workforce and embedding of our new electric vehicle policy. While certain of these decisions may not be materially strategic to the Company, the use of a workforce designated non-executive director has enhanced the understanding and decision making of the Board on employee matters.

Dave's work with the JNCC continues to allow the Board to closely monitor and assess the culture of the Company, providing the Board with assurance in particular matters, such as health, safety and wellbeing and the continued importance of operational and regulatory compliance.

Following Dave's transition to Chair of the Board on 24 March 2022, another independent non-executive director – Jon Woods – has stepped into this workforce representative role.

In addition, in 2021/22, the Board has continued to oversee the Company's engagement with the workforce on enhancement of the Company's purpose. This work commenced in prior year and has continued in 2021/22 where – under the Boards' direction – the Company has worked with senior management to conduct a collaborative process of engagement to develop and embed our purpose within the Company and wider community. Such work is aligned to Ofwat's focus on long-term delivery strategies and plan ahead of our PR24 business plan submission.

Finally, with the transition of the Chair of the Board from Jeremy Pelczer to Dave Shemmans, both individuals took advantage of this event to further engage with the workforce, jointly participating in a "Meet the Chair" day at our head office and Elmer water treatment works, allowing time to be spent with operational and head-office staff to further understand the current concerns and focal points of the Company's staff.

Evaluation of Board effectiveness

The most recent external review of Board effectiveness was facilitated in 2020/21 by Independent Audit Ltd during April and May 2021, with the results presented to and discussed at the Board meeting in June 2021. The exercise was conducted using a self-assessment questionnaire developed by Independent Audit Ltd with input from the Chair and Company Secretary, together with interviews with the Chair, CEO, senior independent non-executive director and CFO. The questionnaire was completed by each

The Board's Code on principles of good governance continued

member of the Board, together with other members of the executive team/ senior management who regularly attend Board meetings. The feedback provided by the interviews and completed questionnaires was then collated and analysed by Independent Audit Ltd and summarised in a report presented by them to the Board. This report reflected the key feedback themes and included suggested actions for consideration by the Board. Independent Audit Ltd have no other connection with SES Water.

The report highlighted several aspects of strong performance from the Board which had increased the latter's effectiveness in the year, including excellent open dialogue, full participation by all non-executives in discussions, further time incorporated into agendas to discuss the Company's purpose, culture and strategy and closer interactions with the workforce.

An internal review of Board effectiveness was conducted in 2021/22, led via the chair Jeremy Pelczer, with results presented to and discussed at the Board meeting in March 2022. This internal effectiveness review confirmed the positive progress of the Board on the matter previously raised by the preceding external review and provided a series of recommendations for Board focus in 2022/23.

The status of recommendations from the 2020/21 external board effectiveness review, and actions arising from the 2021/22 internal board effectiveness review, and documented below.

All actions from previous effectiveness review of the Board have been completed as documented in the 2019/20 APR.

No changes were made to the terms of reference of the Board's formal committees, which the Board considered were operating effectively. The latest version of all the main committees' terms of reference are available from the corporate governance section of the Company's website.

Training and development

Directors are primarily responsible for their personal development and for compliance, where appropriate, with the continuing professional development requirements of their respective professions. The Board also receives regular updates on legislative, regulatory and other governance developments, including briefings from external specialists as appropriate. Such updates have been supplemented in 2021/22 through a formal Board training schedule, which has included access to various online training modules, together with specific training on Competition Act matters. In addition, the Board periodically visits the Company's water treatment works and enquires into operational policies, practices and procedures, although this has been curtailed to a degree due to the ongoing restrictions imposed by COVID-19 for the majority of 2021/22.

Board effectiveness

The Board met six times during 2021/22 to conduct regular Board business, in addition to nine separate meetings to deep-dive on specific topics, including preparation for PR24 and billing system implementation. Committees met as required and considered regular and ad-hoc business. Attendance at meetings by directors is summarised on page 82.

The Board has also established ad hoc Committees to consider key risk items, including the strategy for power purchases (an Energy Strategy Committee), for managing the Company's exposure to risks associated with the defined benefit pension scheme (a Pensions Risk Management Committee), for considering the way in which the Company should be financed in the future (a Financing Committee), health, safety and wellbeing matters (a Health, Safety and Wellbeing Committee) and a Governance committee to consider both recent requirements from Ofwat and the FRC in the area of BLTG. In addition, the Board also created a formal Environmental, Social and Governance (ESG) Committee in 2021/22, building on the focus by management on ESG matters in recent years and reconstituted its Price Review Committee (PR24 Committee) in light of the pending PR24 business plan submission.

These committees are chaired by the senior independent non-executive director and comprise non-executive and executive directors with such other senior executives and external advisers as are appropriate for the matters to be considered.

Separate panels, independently chaired, – the Customer Scrutiny and Environmental Scrutiny Panels – continue to operate to constructively challenge the Company on its customers and environmental ambitions and performance respectively.

System of internal control

The directors acknowledge that they are responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement.

The Board has reviewed the effectiveness of the Company's system of internal control, including control of financial, operational, and compliance matters and risk management. It confirms that the Company has complied with its own system of internal controls, detailed below, and that:

- There is an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Company
- The systems have been in place for 2021/22 and up to date of approval of the Annual Report and accounts
- The systems are regularly reviewed by the Board
- The systems meet the FRC 2014 guidance on these matters

The Company's system of internal control is founded upon the following key features:

1. Control environment

The directors have put in place an organisational structure with clearly defined lines of responsibility and delegations of authority, and also ensured key business process controls are in place, such as balance sheet reconciliations and monitoring budgets to actual. The Company has a clearly defined policy on whistle-blowing, which is detailed in the staff handbook, and includes access to independent and confidential advice. Murray Legg, as senior independent non-executive director, has responsibility in the first instance for managing whistleblowing matters. The Company's Code of Conduct and Business Ethics policy, which has been approved by the Board, has been drawn to the attention of all employees and published on the Company's intranet. Significant work has been performed in the last year, via the Audit Committee, to review and enhance various key Company policies in this area.

2. Risk management

Managing business risk to enable opportunities is a key element of all activities. This is done using a framework which provides a consistent and sustained way of implementing the Company's values. Business risks, which may be related to business systems, physical assets, people, finances or customers, are reviewed regularly by the Audit Committee and discussed by the Board.

An overview of key business risks and the mitigations the Company has established are presented on pages 63 to 69.

Board effectiveness action points from 2020/21 external review	Board response
Set clear environmental, social and governance (ESG) targets and object which reflect the Company's values	Through the ongoing work of the newly formed ESG Committee, and in conjunction with PR24, the Board is developing a set of long-term ESG goals that will align to Company values
Ensure there is a clear framework for agreeing targets for values an culture and embedding in the business	Based on the work on company purposes and values, and the preparation work for long-term delivery plans for PR24, the Board continues to monitor and assess the culture of the business, making recommendations where needed
Understand further the strategic opportunities and risk presented through new technologies	The Board had reviewed and approved digital "road maps" from the Chief Information Office to allow and understand of opportunities and risks in this area
Continue to expand the Board's discussion on principal risks to ensure useful and relevant to the Company decision making	The Board's agendas and deep dives have been enhanced to focus on principal risks based on the most recent risk register review
Expand the Board's consideration of how emerging leading practice in the water sector and other industries could enhance the Company strategy	The Board has continued to expand the data it receives with relation to market "benchmarking" allowing both the Board and senior management to improve decision making

Board effectiveness action points from 2021/22 internal review	Board response
Increase the level of challenge provided by the Board to management to ensure momentum maintained on both strategic and operational focus areas	Greater time will be provided in Board agendas in 2022/23 to ensure that adequate time is taken to deep dive with management on areas of underperformance to understand and address root causes – in particular customer service
Spend further time reviewing "people" matters with management, taking into account the recent feedback from employee engagement surveys	Dedicated Board time will be taken to review key tenets of the people strategy, overall people resilience matters and further feedback from the recent employee survey and JNCC discussions
Ensure a platform for review and discussion of long-term critical decisions for the Company is provided for the Board	The upcoming PR24 Committee discussions, with the focus on long-term delivery strategies and plans, should provide such a forum in 2022/23
Lead by example with respect to diversity by proactively ensuring levels of diversity are brought to bear in the Board meetings	The recruitment of new independent non-executive director, Rebecca Wiles, allows a level of diversity at Board level, and the EDI Committee will also work closely with the Board going forward to further such diversity initiatives

The Board's Code on principles of good governance continued

3. Information systems
There is a comprehensive budgeting system with an annual budget approved by the Board. At each Board meeting, monthly trading results, balance sheets and cashflow statements are reported against the corresponding figures for the budget and the prior year, and the forecast for the full year is reviewed.

4. Control procedures
There are clearly defined policies, processes and controls for managing key business risks, such as appropriate delegations of authority for capital and operating expenditure, preventative IT controls to reduce the possibility of a cyber-attack being successful and automated controls within the treatment processes and networks. Larger projects and major investments require Board approval.

5. Monitoring system
The Company's internal financial, operational and compliance control systems have been reviewed in the context of evolving legal and regulatory requirements and additional assurance procedures have been agreed and implemented. The Company has published an Assurance Framework on its website. The Audit Committee has reviewed the application of this targeted assurance plan and has reported its conclusions to the Board.

The Committee has also considered the need for a dedicated internal audit function in the light of the development of the Quality and Compliance function since its establishment in 2014. Having agreed a programme of internal audit work to be undertaken by a combination of internal and external resources, the Committee has concluded that a separate internal audit function continues not to be needed at the present time. The monitoring and control arrangements operated in the year are considered good based on the internal assurance received from the above audit programme, with enhancements implemented that increased the capability of internal audit to review financial controls within the business. The external auditor has been informed of the Company's internal audit programme and tailored its external audit work as needed.

Taxation strategy
SES Water regards full compliance and responsible conduct in all aspects of its tax matters as a fundamental part of being a well-run and respected business.

This taxation strategy, which has been approved by the Board, is designed to ensure that the Company:

- Only undertakes tax planning activities that seek to comply with both the spirit and the letter of the law
- Avoids any action or behaviour that might be interpreted as aggressive tax avoidance
- Maintains an open, transparent and professional relationship with HMRC reflecting mutual respect and a collaborative working relationship
- Maintains an effective governance and risk management framework that ensures these objectives are implemented in practice.

We consider that these objectives will ensure full compliance with the HMRC framework for co-operative compliance.

The Company recognises that the majority of the benefit to be gained from reducing taxation liabilities will, under the regulatory process for controlling charges to our customers, ultimately benefit customers through reduced bills rather than benefit shareholders. The Company considers this an integral part of the incentive-based regime for monopoly service providers in England and Wales.

The Company operates solely in England and its customers are all based here. All of the Company's profits are taxable in the UK.

The Company's effective cash tax rate on reported profits will vary from year to year – and from the standard rate of UK corporation tax – due to the availability of tax deductions for capital investment and pension contributions. These deductions arise from the tax incentives for capital investment and employee retirement provisions that have been maintained by the Government explicitly to encourage such investment. The Company considers that utilising such incentives is entirely consistent with being a well-run and respected business.

Board attendance record 2021-22

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Jeremy Pelczer	14/15	n/a	n/a	4/4
Murray Legg	14/15	4/4	2/2	4/4
Dave Shemmans	15/15	4/4	2/2	4/4
Jon Woods	13/15	4/4	2/2	4/4
Kenji Oida	14/15	n/a	n/a	n/a
Ken Kageyama*	14/14	n/a	n/a	n/a
Paul Kerr	15/15	n/a	n/a	n/a
Ian Cain	14/15	n/a	n/a	4/4

* Ken was appointed on 1 June 2021

Tax risks are encompassed within the Company's general risk management framework (described on pages 63 to 69). In any particular year the principal tax risks arise from changes in legislation or the interpretation of taxation law in practice, leading to higher taxation liabilities than have been allowed for in prices charged to customers.

In addition to corporation tax, the Company makes further contributions to national finances in the form of business rates, employers' national insurance contributions, environmental taxes and other regulatory levies, including charges for abstracting water from the natural environment.

Fair, balanced and understandable assessment

The Board has given careful consideration to whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable in accordance with the requirements of the Code. The preparation of this document is overseen by the executive directors with input from senior executives from across the business. The whole report has been reviewed in detail by the Audit Committee, which has noted the close personal involvement of directors who are involved in the day-to-day operation of the business and therefore well-placed to ensure the accuracy of matters reported, and the thorough assurance processes which underpin the reliability of key performance information. The Board is therefore satisfied that the document meets the requirements of the Code in this respect.

Going concern

The Company's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 69.

The financial position of the Company is set out on pages 58 to 62. Note 2.26 of the Financial Statements on page 134 sets out the Company's position in relation to risks associated with financial instruments, credit and interest rates and describes the Company's risk mitigation measures.

The going concern basis has been adopted for preparing the financial statements. The directors have considered the financial position of the Company and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of this Annual Report.

The directors 'conclusions on the going concern basis include the consideration of amounts available under the Company's committed revolving credit facility of £75m using mitigating actions as needed should any plausible downsides occur.

No repayments of the Company's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non-household markets, potential impacts arising from the current cost-of-living issues and high-inflation environment and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of COVID-19 on customers' ability to pay, were assessed against the long-dated bond financial covenants, which showed that such covenants were not breached as a result of the downside scenarios. If required, the Company has a number of mitigating actions to deal with liquidity issues, including re-scoping and deferral of capital projects.

Long-term viability statement

The directors have assessed the viability of the Company to March 2032, taking account of the Company's current position, performance and the potential impact of the principal risks documented in the Strategic report. Based on this assessment, the directors have a reasonable expectation that the Company will be able to fulfil its obligations, including meeting its liabilities as they fall due, over the period to March 2032.

In making this statement the directors have considered the resilience of the Company's financial position based on its projections as incorporated in the PR19 Business Plan (updated through the acceptance of Ofwat's Final Determination in February 2020 and taking into account the Company's latest 2021/22 performance).

The directors have tested the Company's ability to withstand the impact of the following scenarios suggested by Ofwat, all of the individual scenarios are met with the exception of the combined scenario:

- Failure to deliver regulatory performance commitments equivalent to 3% of the allowed return on regulatory equity in any one year.
- 1% inflation increase and 1% inflation decrease over five years.
- 5% increase in bad debt.
- 2% increase in interest rates.
- 10% totex overspend over five years.
- 3% of turnover financial penalties
- Combined scenario of 10% totex overspend over five years, penalties for failure to deliver regulatory performance commitments of 3% of the allowed return on regulatory equity and financial penalties equivalent to 3% of turnover.

The directors have also tested the Company's ability to withstand the impact of certain company-specific scenarios, including:

The Board's Code on principles of good governance continued

A cyber-attack that results in a fine of 4% impact of revenues:

- A cyber-attack on the Company's informational and operational technology systems leads to short-term asset failures and data breaches.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred to remediate the incident and compensate for the impact to customer service.

A water quality failure:

- A loss of operational control leads to a significant drop in the quality of water from one or more of our water treatment work assets.
- This results in an interruption to water supply to a significant portion of our customer base.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred to remediate the incident and compensate for the impact to customer service.

Loss of high-quality staff:

- A sustained loss of staff due to illness or significant work-based disputes occurs that results in key activities not being able to be performed across the Company.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred to hire and train temporary staff to perform key duties.

Operating expenditure underperformance:

- An underestimate is made within our annual budgeting process on the time, effort and cost required to perform key activities across the Company.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred, potentially through the need to contract with external parties, to manage daily activities.

Failure of our AMP 7 efficiency programme:

- The expected financial efficiencies to be gained through technology and new ways of working are not achieved and as such activities do not yield the overall financial savings expected.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred when compared to forecast amounts to manage daily activities.

Additional climate-related costs:

- Funding is required – not currently in our Final Determination – to address climate-related matters, such as net zero carbon and asset enhancements
- Additional capital expenditure is incurred when compared to forecast amounts

Additional pension costs on the defined benefit scheme:

- Movements in market valuation and actuarial assumptions require that deficit payments are needed for the defined benefit scheme (equivalent to those under the 2014 valuation).
- Additional expenditure is required to fulfil these deficit payments.

Redemption costs associated with our long-term bond:

- Significant fees are incurred in association with the redemption and replacement of the Company's long-dated bond.
- Additional expenditure is incurred when compared to forecast amounts to fulfil these fees.

Combined scenario

- A combined scenario for the above cyber-attack, operating expenditure underperformance and failure of our AMP 7 efficiency programme.

The directors have determined that the period to March 2032 is an appropriate period over which to provide this viability statement as it is consistent with our recent Business Plan submissions, and takes into account the Company's current liquidity position and committed borrowing facilities, its potential mitigating actions including increasing both borrowings and equity and suspension of dividends. The directors have also considered the Company's ability to access current and future sources of debt funding, based on recent transactions, current arrangements and discussions with financial institutions.

In addition, the above scenarios are in line with our recent Business Plan and Ofwat's Final Determination, and we continue to consider such scenarios relevant for our Company, given that they are reflective of the key risks separately documented within the Strategic report of this Annual Report. We consider the above stress-testing scenarios stretching for our Company, based on the fact that these scenarios represent the higher categories of risk for the Company.

The assessment criterion the directors have used for testing the potential financial impact of the documented Ofwat and Company specific scenarios, both before and after mitigating actions, is the Company's ability to comply with the financial covenants associated with the £100 million index-linked bond. These covenants generally impose tighter financial constraints than the metrics used by the independent credit rating agencies, which publish their own assessments of the Company's credit strength. Annual compliance with financial covenants is subject to external assurance and certificates of compliance with the broader covenants of the £100 million index-linked bond are issued annually to the independent Controlling Finance Party.

The underlying assumptions within this long-term viability statement are consistent with those assumptions utilised in our PR19 Business Plan and Ofwat's Final Determination, updated for the Company's latest 2021/22 performance. Such assumptions, together with data input, were subject to our well-established internal procedures for managing data quality and assurance. In addition, we used a range of suitably qualified external assurance providers to give additional comfort to the data and underlying assumptions which were incorporated into our business plan, and hence this long-term viability statement. In particular, a leading audit practice confirmed the reasonableness of the key assumptions made in preparing the inputs into the data tables that underpin our Business Plan and therefore this long-term viability statement. The directors reviewed the assurance activities as part of their approval and concluded that appropriate assurance activities had been undertaken that were consistent with SES Water's latest Company Monitoring Framework assessment.

Based on the above scenarios and assessment criterion, we remain financially resilient (and have sufficient headroom to raise additional debt within our covenants) to address all scenarios (with the exception of the extreme combined scenarios and certain extreme specific scenarios, such as a 10% total overspend). In the latter scenarios, maintaining financial resilience would be achieved through a combination of suspending dividend payments and direct equity injections. Given that this additional headroom might be needed because the probability of more than one event or combination of events occurring increases with the long time horizon being considered, the directors have a signed undertaking from our two main shareholders to provide financial support in the scenarios described to ensure that we are able to continue financing and providing services to customers.

SUMISHO OSAKA GAS WATER UK LTD (SOGWUK)

Code of corporate governance principles

As the ultimate holding company of Sutton and East Surrey Water plc (the 'regulated company'), we recognise that the principles which govern our code of corporate governance (the 'Code') should: i) take into account the areas where our activities may have the greatest direct impact on the regulated company; and ii) complement the corporate governance principles of the regulated company.

Accordingly, we have established this 'code of corporate governance principles' to address these considerations as well as regulate and enhance our activities in terms of transparency, risk management and long-term decision making.

1. We shall ensure that our holding structure is transparent and explained in a clear way. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year.
2. We shall provide clear information on our debt and equity structures. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year.
3. We shall be transparent in declaring the interests of our directors. We shall demonstrate this transparency by having a clear internal process for disclosure and publishing a list of such interests in the Annual Report of the regulated company each year. We shall disclose and explain any matters at the regulated Company level which are reserved for our Board in the Annual Report of the regulated company each year.
4. In carrying out our activities we shall ensure that we fully understand and take into account, particularly at Board level, the duties and obligations of the regulated Company contained within statute and its Licence. In particular, we shall refrain from any action which would cause the regulated Company to be in breach of any of its obligations.
5. In order that the regulated Company may assess any potential impact on its activities and its exposure to risk, we shall provide the regulated company with any information that it reasonably requests about the activities of our wider group. Further, we shall proactively disclose to the regulated Company any issues or information that may have a material impact on its activities.
6. We recognise the importance of supporting the regulated Company in a way that allows it to run its business as if such Company were an independent public-listed Company.
7. We recognise the importance of supporting the regulated Company in order that it can make strategic and sustainable decisions in the interests of the regulated business for the long term.
8. We shall regularly review this Code to ensure that it meets the standards of current best practice. Any changes to this Code shall be reported in the succeeding Annual Report of the regulated company.

Approved by the Board of Directors on 30 June 2022.

Statement by the Chair of the Nomination Committee

As incoming chair of this Committee, I am pleased with the strong focus by the Committee on Board transition matters in the last year.

Dave Shemmans
Chair of the Nomination Committee

Such transition matters included not only my appointment as the new Chair of the Company, replacing Jeremy Pelczer, whose third and final term as Chair ended on 23 March 2022, but also the appointment of Jon Woods, one of the Company's current non-executive directors, as Chair of the Remuneration Committee, and appointment of Rebecca Wiles as a new non-executive director of SES Water.

Rebecca brings more than 30 years' experience working for BP and has a strong engineering background. Having led large projects and teams, both operationally and technically, she has significant experience looking for new technology opportunities to optimise infrastructure and assets – a skillset that will prove invaluable to help us develop our capital infrastructure.

The Board takes diversity at all levels of the business seriously and appreciates the benefits that it brings. We are pleased to welcome Rebecca to the Board, bringing the female diversity to a 25% level at independent Board level.

At SES Water we believe in creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve. We do not discriminate based on gender.

The overall stability of the Board and the executive team in the year, as well as the strong focus on senior management development has been critical in addressing the various customer, employee, operational and financial issues that continued during the year due to the ongoing COVID-19 pandemic. The strong leadership displayed across the Board and executive team has been vital in ensuring that both our customer and employee concerns have been addressed in the second year of the pandemic.

I am also pleased the Committee approved and recommended to the Board that Jon serve a third and final three-year term as the independent non-executive director, effective from 1 April 2022.

The Committee has continued to devote considerable attention to succession planning at executive director and senior management levels, recognising the importance of a smooth flow of new talent alongside the continuous development of existing employees to enable the Company to thrive in a challenging and changing business environment.

Finally, on a personal note, I would like to convey my thanks to Jeremy for his diligent, insightful and thoughtful chairing of this Committee in his tenure at SES Water, which has resulted in an effective and experienced Board and Executive team to guide this business into the future.

The most recent review of the effectiveness of the Board and its committees concluded the Nomination Committee continued to fulfil its objectives appropriately.

Dave Shemmans
Chair of the Nomination Committee

8 July 2022

Activities of the committee

The Nomination Committee met four times during the year, focusing on transition arrangements for the Chair of the Board, non-executive and executive succession planning and the performance of the Committee and individual directors as part of the review of Board effectiveness. Jeremy Pelczer did not chair the Committee when it discussed his performance as Chair.

The Committee completed its succession plan for new Chair of the Company by appointing Dave Shemmans, replacing Jeremy Pelczer, whose third and final term as Chair ended on 23 March 2022. The Board appointed Dave as Chair of the Company with effect from 24 March 2022. Dave's appointment will run until completion of the PR24 process, which is anticipated, for the purpose of this appointment, to be in December 2024. As such, Dave's term as Chair will end on 31 December 2024. Dave's total period as a director of the Company would therefore be 10 years and four months, compared to the normal limit of nine years.

Membership:

Jeremy Pelczer (resigned 23 March 2022)	**4/4**
Dave Shemmans (appointed as chair of Nomination Committee 24 March 2022)	**4/4**
Murray Legg	**4/4**
Jon Woods	**4/4**
Ian Cain	**4/4**
Rebecca Wiles (appointed 26 May 2022)	

Attendees:

Senior employees or external advisors may attend specific meetings by invitation.

Note: Given that Dave Shemmans, under the related FRC code, is no longer considered independent upon his appointment as Chair of the Board, the Nomination Committee had a short period where the majority of its membership was not independent (from 23 March 2022 to the appointment of Rebecca Wiles on 26 May 2022). The Nomination Committee considered Dave independent of character to continue to perform his duties on the Committee during this brief period until Rebecca's appointment.

Responsibilities:

- Ensuring the Board and its Committees have the right balance of skills, knowledge and experience
- Planning for orderly succession to the Board and ensuring an effective succession planning system is in place for other senior executive positions
- Making recommendations to the Board on the appointment of any director
- Identifying and nominating suitable candidates for executive and non-executive director vacancies, having regard to, among other factors, the benefits of diversity, including gender diversity
- Contributing to the annual review of Board performance, particularly in relation to the ability of non-executive directors to devote adequate time to the Company's business.

Terms of reference:

The Committee's full terms of reference as approved by the Board can be found in the Corporate Governance section of the Company's website.

Dave Shemmans was considered fully independent by the Board upon his appointment as a non-executive director in September 2014, although under related FRC guidance he is not considered independent when appointed to Chair of the Board. Murray Legg, the senior independent non-executive director on the Board, independently confirmed that all Board members supported Dave's appointment, and Ofwat had no objections to this arrangement.

Dave also succeeded Jeremy as Chair of East Surrey Holdings, the parent company of SES Water and of various non-regulated companies including SES Water Services. The Board did not consider this additional role to have any implications on Dave being regarded as Chair of the SES Water Board.

Dave will continue as Chair of the Health, Safety and Wellbeing Committee, and has been appointed Chair of the Nomination Committee, again taking over from Jeremy in this respect.

With Dave's appointment to Chair of the Board and Nomination Committee, he relinquished both his Chair role on the Remuneration Committee and his role as the non-executive director designated to liaise with our workforce. Jon Woods, as one of the Company's current non-executive directors, has taken over both these positions from Dave, effective 24 March 2022.

The Nomination Committee also approved and recommended to the Board that Jon serve a third and final three-year term as the independent non-executive director, effective from 1 April 2022.

Murray Legg continues as the senior independent non-executive director for SES Water, in addition to his role as Chair of the Audit Committee of SES Water and East Surrey Holdings, the latter being the parent company of SES Water. The Board do not consider this additional role has any implication on Murray's role as the senior independent non-executive director of SES Water.

Statement by the Chair of the Nomination Committee continued

In addition, the Committee was pleased to announce the appointment of Rebecca Wiles as non-executive director of SES Water, effective from 26 May 2022. Rebecca brings more than 30 years' experience working for BP and has a strong engineering background. Having led large projects and teams, both operationally and technically, she has significant experience looking for new technology opportunities to optimise infrastructure and assets – a skillset that will prove invaluable to help us develop our capital infrastructure.

An external executive recruitment company was contracted to perform the search for the new independent non-executive director and performed a thorough and diligent process in the recruitment of Rebecca, with requisite Board involvement in the research and interview process. The recruitment company, independent of the Company, has no associated connections with the directors of the Company.

The smooth transition of Chair of the Board from Jeremy to Dave, the overall stability of the Board and the executive management team in the year and the strong focus on senior management development has been critical in addressing the various customer, employee, operational and financial issues that continued during the year due from the ongoing COVID-19 pandemic. The strong leadership displayed across the Board and executive team has been vital in ensuring both our customer and employee concerns have been addressed in the second year of the pandemic.

The Committee was pleased to note the appointment of Ken Kageyama as one of the Company's shareholder-nominated non-executive directors, replacing Seiji Kitajima effective from 1 June 2021. Ken has brought with him a wealth of experience in the water and energy markets, having been with Sumitomo Corporation since 1991.

The Committee has continued to devote considerable attention to succession planning at executive director and senior management levels, recognising the importance of a smooth flow of new talent alongside the continuous development of existing employees to enable the Company to thrive in a challenging and changing business environment.

The Board is committed to evaluating its performance every two years, with the most recent internal evaluation being concluded in March 2022, and the findings were reported to the Board. The Board concluded during this recent review that it remained satisfied that the Committee continued to perform its duties in line with its terms of reference.

The Board Chairman reviews individual non-executive director performance annually and, in turn, the senior independent non-executive director undertakes a review of the Chairman's performance annually. All reviews were satisfactory.

Equality, Diversity and Inclusion Policy

The Board is committed to maximising both employee and business performance through employing the best people at all levels and creating an environment in which they want, and are able, to contribute to the Company's success. We aim to provide them with the appropriate training and support and will ensure they are appropriately rewarded for their efforts and are treated fairly and with dignity and respect.

To further these aims, the Company formed an Equality, Diversity and Inclusion (EDI) Committee in 2020/21, comprising of various employees from across the Company, which was involved in the formalization and issuance of an EDI policy in early 2021, and has the remit, together with the Board, of ensuring all key principles of the associated policy are embedded throughout the Company. This policy apples to Board diversity, as well as diversity across the whole business.

The EDI policy sets out how the Company will promote and support an inclusive environment built on our values, where everyone can flourish irrespective of their background and personal characteristics. We aim to:

- Embed equality, diversity and inclusion in all our activities
- Work together with all our stakeholders as well as through our Customer and Environmental Scrutiny Panels
- Minimise the potential for discrimination, harassment and bullying across all our activities, and promote equal opportunities
- Create opportunities for local, disadvantaged and under-represented people and companies by increasing equal opportunities, skills and employment
- Reduce our gender pay gap
- Raise awareness of equality issues and of the benefits of a diverse culture.

As part of the Company's principle of equal opportunities in employment, full and fair consideration is provided to all applications for employment that disabled people make to the Company. The Company's consideration of such equal opportunity is also provided to the employment, training, development and promotion of disabled people within the business, and any personnel who become disabled during employment.

Through implementation of this EDI policy, we expect our employees to treat their colleagues as they would like to be treated. This means treating others with dignity and respecting their individual differences and contributions. Any conduct involving discrimination or harassment (racial, sexual or of any other kind) of an employee is unacceptable.

As part of this EDI policy, we support the principle of equal opportunities and fair pay in employment and believe it is in the Company's and employees' best interests to develop, train and nurture all people, talent and skills available when new opportunities arise and throughout employment. The Board has implemented this aspect of the EDI policy through its work with the Nomination Committee and wider reviews with management on the Company's people strategy throughout the year.

Statement by the Chair of the Audit Committee

The Committee's main focus in 2021/22 has been supporting and challenging management on its financial resilience and liquidity through the second year of the COVID-19 pandemic.

Murray Legg
Chair of the Audit Committee

The Committee has been closely involved in ensuring that appropriate resilient plans continue to be in place by management to ensure the ongoing liquidity of the Company. This has involved ensuring that the additional debt facilities were obtained through increasing available funds under our revolving credit facility by £25m to £75m. This has also involved the stress-testing of management's liquidity scenarios and assumptions, and a review of management's debt facility and covenant requirements under such circumstances.

In addition, during the year the Company launched the new billing system. Prior to the launch on 30 September 2021, the Committee ensured that appropriate "transition controls" were in place (such as reconciliation of customer debt balances from the old to the new system) and also that appropriate IT general computer controls over the financial systems were functioning effectively as part the transition. The Committee was supported in this regard by reports from the Chief Information Officer and the external auditor through their audit procedures, which aided a successful launch of the new billing system.

The above activities were in addition to the core activities of the Committee in 2021/22, which include ensuring compliance with statutory and regulatory requirements, and that the Company has provided a long-term viability statement. The Committee also focused on safeguarding the highest standards of integrity, financial reporting, risk management and internal controls within the Company. Further details of these core activities during 2021/22 are provided in this report.

Also, the Committee, together with the Board, formed a separate PR24 Steering Committee in the year, in light of initial Ofwat guidance and timeline published in 2021 in respect of PR24. This PR24 Steering Committee has already focused on development of key workstreams, including long-term delivery strategies, customer engagement, business-wide systems resilience, and cost modelling.

I continue to be impressed by the insight, diligence and seriousness the Company applies to all its assurance activities, and to the work performed to ensure the ongoing financial resilience of the Company in the light of the ongoing impacts of the COVID-19 pandemic.

The Committee has reviewed this Annual Report and accounts. It is able to confirm to the Board that it meets the requirements of the UK Corporate Governance Code by being – when taken as a whole – fair, balanced and understandable. It provides the information necessary for a user to assess the Company's performance, business model and strategy. I am satisfied moreover that, as a result of the work undertaken during the year, the Committee has acted in accordance with its terms of reference and ensured that good financial practices have continued to operate throughout the Company.

The internal review of the effectiveness of the Board and its committees this year, concluded that the Audit Committee continued to fulfil its objectives appropriately.

Murray Legg
Chair of the Audit Committee

8 July 2022

Statement by the Chair of the Audit Committee continued

Membership:

Murray Legg	**4/4**
Dave Shemmans	**4/4**
Jon Woods	**4/4**
Rebecca Wiles (appointed 26 May 2022)	

Given that Dave Shemmans, under the FRC Code, is no longer considered independent upon his appointment as Chair of the Board, there was a short period of time (from 23 March 2022 to the appointment of Rebecca Wiles on 26 May 2022) where the Audit Committee membership was not fully independent. This was rectified by the appointment of Rebecca on 26 May 2022 and in the intervening period the director did not consider the decision making of the Audit Committee to be adversely impacted.

Attendees:
The Chairman, Chief Executive Officer, Chief Financial Officer, Quality and Compliance director, Chief Information Officer and shareholder representatives attend each meeting by invitation. The external auditor attends meetings at least twice each year and meets with the Committee without management present at least once every year. Other members of the financial and general management team attend meetings periodically by invitation.

Terms of reference:
Reviewing the form and content of the Company's interim and year-end accounts and results announcements

- Reviewing submissions to Ofwat, including annual performance reports, price control compliance, risk and compliance statements and periodic business plans and resubmissions
- Reviewing the effectiveness of internal controls and risk management systems
- Consideration of the need for an internal audit function within the Company
- Overseeing the relationship with the external auditor, including approval of audit plans and assessment of their objectivity and independence

The Committee's full terms of reference as approved by the Board can be found in the Corporate Governance section of the Company's website.

Composition and training of the Committee

Murray Legg is considered by the Board to have recent and relevant financial experience because he is a chartered accountant who has audited and advised major UK utilities and a variety of listed and unlisted companies in other sectors in a series of increasingly senior roles at PwC for over 35 years. He is also the chair for a UK listed company.

The Committee receives regular accounting and corporate governance updates at least twice each year as well as specific or personal training as required. During 2021/22, members of the Committee, in conjunction with the full Board, received specific competition law training and on-line training provided by the Company covering a variety of topics, including whistleblowing and data protection. Members of the Committee periodically visit water treatment works, Bough Beech reservoir, and other sites where operational practices and issues are explained. Advice on regulatory developments is made available to the Committee from specialist advisors on regulatory matters.

Main activities of the Committee

The Audit Committee met four times during 2021/22, and on 26 May 2022 to consider this Annual Report. At least once a year a private session is held with the Committee and the external auditor without management present. At each meeting the Committee operates to a formal agenda of items including the minutes and action points of the last meeting. This ensures that an accurate record of its deliberations has been maintained and actions are progressed.

The Committee chair also has preparatory discussions with the Chief Financial Officer, the financial controller, the external auditor and, where necessary, other members of senior management prior to Committee meetings. He also personally reviews data, processes and assurance measures involved in key regulatory submissions, as well as considering the potential effect of proposed new accounting and regulatory standards.

When reviewing the risks faced by the Company – and the mitigations already in place – the Committee has this year given particular attention to certain key matters – namely COVID-19, cyber security, the implementation of the Company's new billing system and preparations for PR24.

COVID-19

The Committee's main focus during the year has been supporting and challenging management on its financial resilience and liquidity through the second year of the COVID-19 pandemic. The Committee has been closely involved in ensuring that:

- Appropriately resilient plans continued to be in place by management to ensure the ongoing liquidity of the Company. This has involved ensuring that the additional debt facilities were obtained through increasing available funds under our revolving credit facility by £25m to £75m.
- There continues to be stress-testing of management's liquidity scenarios and assumptions, and a review of management's debt facility and covenant requirements under such circumstances. Stress-testing scenarios have centred around the reductions in revenue (and therefore cash) associated with both the household and non-household retail markets, changes in the profiling of capital expenditure, flexibility in dividend payments and associated levels of potential bad debt resulting from the economic downturn
- Work has been performed with management on the recommendations to the Board in respect of the optimal financial options to choose in the long-term interest of the Company's customers and other stakeholders, including successfully addressing the early payment restrictions originally embedded in the Company's long-term bond
- Appropriate disclosure in the November 2021 interim announcement and in this Annual Report has been provided in respect of the impact of COVID-19 on financial reporting where relevant, for example bad debt provisioning.

Cyber security

The Committee's consideration of the threat to assets, controls and personal data (of both employees and customers) posed by malicious activity over the internet continues to be performed in conjunction with the Company's Cyber Assessment Framework (CAF) submission to the DWI under the Network and Information Systems regulations (NIS). The latter focused on the threat to the Company's operational technology and – while the effectiveness of the Company's existing protective measures has been noted – the Committee continues to work with management to enhance further plans for handling threats to water quality and operations. In 2021/22, the latter also included consideration of threats – and proactive mitigating actions – arising from the on-going Ukraine-Russia conflict.

The Committee, in conjunction with the new on-line cyber training, has also ensured that regular updates on the findings of the Company's recent penetration tests on its operation and information systems are discussed with the Committee, together with requisite learnings and actions.

Implementation of the Company's new billing system

Prior to the launch on 30 September 2021 of the Company's new billing system, the Committee considered the risks to accurate and timely financial reporting within the revenue and billing financial process. The Committee ensured that appropriate "transition controls" were in place prior to go-live of the system (such as reconciliation of customer debt balances from the old to the new system) and also that appropriate IT general computer controls over the financial systems were functioning effectively as part the transition. The Committee was supported in this regard by reports from the Chief Information Officer and the external auditor, which aided a successful launch of the new billing system.

Preparations for PR24

The Committee, together with the Board, formed a separate PR24 Steering Committee in the year, in light of initial Ofwat guidance and timeline published in 2021 in respect of PR24. This PR24 Steering Committee is also chaired by Murray Legg, and has already focused on development of key workstreams, including long-term delivery strategies, customer engagement, business-wide systems resilience and cost modelling.

In addition to the other matters covered under separate headings below, during the year the Committee has also considered:

- Documents required by Ofwat to be published by the Company, including the Annual Performance Report (incorporating regulatory accounts, performance against final determination performance measures, and financial resilience measures); targeted assurance plans; and the Company's wholesale, household, developer services and New Appointment and Variations (NAV) charges schemes
- The Company's risk register, including reviewing and challenging at six-monthly intervals management's assessment of the key risks faced by the business, the probability of their occurrence and the impact of mitigation measures in place. The key risks from the Company's latest risk register are illustrated on pages 63 to 67 of this report
- The Company's progress in developing its business-wide systems resilience plans, in line with Ofwat requirements and sector best practice
- The Company's long-term viability statement, going concern assumption, tax policy statement and certificates of compliance with its Instrument of Appointment
- The Company's compliance with covenants associated with its £100 million index-linked bond, including the maintenance of appropriate financial ratios and the funding of ring-fenced reserve accounts

Statement by the Chair of the Audit Committee continued

- The operation of internal controls within the business and progress with management responses on detailed control points identified by external audits
- The operation of the Company's compliance and assurance function and the associated programme of internal audits
- Oversight of management's work with Mott MacDonald, the external auditor of the Company's regulatory performance commitments, including interim and year-end reviews
- Key policies under annual review, including the Company's code of conduct and whistleblowing policies, together with consideration of new Company policies, such as a social media policy
- The Company's consideration of the effect of any new accounting standards to be adopted in 2022/23
- The appropriate treatment in the financial statements of government mandated changes in tax rates
- The appropriateness of the underlying actuarial assumptions underpinning the valuation of the Company's section of the Water Companies Pension Scheme (WCPS)
- Review of compliance of the Company on service level agreements with SES Business Water and other associated companies, ensuring services provided are on an arms-length basis and no cross-subsidy from the appointed business is occurring
- Formal evaluation of the performance of the external auditor.

Significant accounting judgements

In recommending the Annual Report and accounts to the Board for approval, the Committee reviewed significant issues, judgements and estimates reflected in the financial statements to ensure that appropriate rigour had been applied as part of the year end process.

The Committee considers that the key estimates and judgements are:

- The appropriateness of the estimates and provisions for doubtful debts. The Committee supported management's approach to provisioning, which involved a consideration of the level of bad debt provisions required in the light of recent cash collection rates, the on-going effects of the COVID-19 pandemic and the current cost of living crisis. This also involved a consideration of the cash collection processes and resources in place within the Company, the results of which underpin the doubtful debt provision
- The estimated unbilled revenue for measured customers. The Committee agreed with management's estimate of this balance, which represents consumed but unbilled water usage at year-end, after taking into account recent consumption trends
- The appropriateness of the Company's policy for capitalising expenditure as fixed assets under FRS 101 and the consistent application of the policy in the year. The Committee noted that the policy and practice was consistent with that adopted under previous accounting standards, continued to be applied in detail and was subjected to significant management and audit scrutiny. The Committee noted that this policy extended to ensuring that appropriate processes and controls were in place for the transfer of Assets Under Construction to Fixed Asset, including the requisite commencement of depreciation charges, and that significant review by management had occurred in this area in the year
- The appropriateness of the accounting estimates and disclosures for the benefits provided to employees through the Company's section of the WCPS. The Committee concluded that the estimates applied by the Company's actuarial advisors in calculating the annual cost and valuing the assets and liabilities associated with the defined benefit obligation were within the range typically adopted for prudent provisions in the current economic environment. In addition, the Committee concluded that the effect of the Guaranteed Minimum Pension matters continued to be appropriately accounted for and reported in the Company's financial statements
- The need for provisions for outstanding claims. The Committee agreed that the basis of provisions made was prudent and realistic.

Going concern

Having considered a paper from management on the Company's liquidity and forecast obligations for the immediate future and for the period to 31 March 2032, and having made appropriate enquiries of management, the Committee supported the directors' assessment that the Company should adopt a going concern assumption for the preparation of the annual financial statements and should provide a long-term viability statement (which considers Ofwat's guidance in this area as detailed in Information Notice 19/07) as set out on page 83. The Committee noted that management had appropriately considered the effects of Covid-19 within this going concern assessment, to the best of their knowledge given the information available at the time.

Strategic Report

Governance

Financial Statements

Group Information

Fair, balanced and understandable report

The 2018 edition of the UK Corporate Governance Code requires the Board to consider whether the Annual Report is, when taken as a whole, fair, balanced and understandable and provides the information necessary for users to assess the Company's performance, business model and strategy. The Board has asked the Audit Committee to advise on compliance with this important requirement.

In considering the advice to be given to the Board, the Committee reviewed the Company's processes for ensuring the accuracy of information within this Annual Report, noting the continuous updates to the well-established processes for assurance of key performance measures (including those required for regulatory purposes) and underpinning the Company's Risk and Compliance Statement to the Water Services Regulatory Authority (which can be found in the Annual Performance Report), as well as the financial controls and audit procedures for ensuring the integrity of the accounts.

The Committee have drawn further assurance from the close personal involvement of executive directors and senior staff in the preparation and review of the Annual Report, reflecting the detailed involvement that senior employees can have in the day-to-day operations and control of a business of the size and nature of the Company. Having reviewed drafts of the Annual Report, had enquiries answered satisfactory and noted enhancements made to initial drafts, the Committee is pleased to confirm to the Board that it considers the Annual Report meets the high standards required by the UK Corporate Governance Code.

External auditor

The Committee approved PwC's proposed approach for the year end statutory audit at their meeting in September 2021. Regular dialogue was held with the auditor regarding the progress and findings from the audit, including additional procedures conducted as a result of the ongoing impact of COVID-19. The Committee approved the management representations to the external auditor and also requested feedback from both management and the external audit team about the effectiveness of the audit carried out.

The effectiveness of the audit process and quality of the audit were assessed by the Committee through review of PwC's reports and communications during the year, and formal feedback will be provided in July to PwC.

During the year, the Committee focused on how robust and effective PwC's challenges were on key areas of judgement by management, and especially if PwC had exhibited an appropriate level of professional scepticism in such areas. This included the Committee reviewing PwC's work on management's provisions for doubtful debts and the estimated unbilled revenue for measured customers, together with considering the level of challenge that PwC provided to management's assessment of going concern and long-term viability. In all such instances, the Committee considered an appropriate level of challenge has been provided by PwC, as reflected in their year-end reporting to the Committee.

The Committee noted that PwC had conducted an annual review of its independence, identifying all services provided to the Company and its associates and assessing whether the content and scale of such work was a threat to their independence.

The last tender for the external auditor was conducted in 2018/19 with PwC appointed external auditor for the year-ended 31 March 2020. The audit partner since appointment is Richard French.

Note 6 to the statutory accounts (page 137) shows that the fees due to PwC all related to audit or other assurance procedures on the Company's statutory and regulatory obligations. The Committee concurred with the auditor's assessment that there are no factors which would impair their objectivity and independence. The Committee is satisfied that there are adequate safeguards in place to protect the independence and objectivity of the service provided by the external auditor including a requirement for all non-audit work likely to exceed £10,000 to be approved by the Chairman of the Committee. Amounts under this threshold will be approved by the Chief Financial Officer and are considered pre-approved by the Audit Committee.

Statement by the Chair of the Remuneration Committee

As Dave Shemmans takes on the role of the Chair of the Board, I am pleased to be taking over the Chair of the Remuneration Committee.

Jon Woods
Chair of the Remuneration Committee

Firstly I want to take this opportunity to recognise the efforts of our colleagues in ensuring that we always do the right thing for our employees, our communities that we serve, our customers and the environment that we have the privilege to operate in. In my role as chair I will ensure that we continue to deliver for our employees, our board and our customers each and every day.

The focus of the Committee in 2021/22 has been to ensure that the reward and incentive schemes for our executive, senior leaders and all colleagues are fair and effective across the organization to enable us to recruit and retain the highest calibre of individuals. We want to reward individuals who can contribute to delivering our values and performance commitments, providing a high quality service to our customers, always having a positive impact on the environment we operate in and ensuring that SES is a great place to work.

This report details the activities of the Remuneration Committee for the financial year to 31 March 2022, including the remuneration given to directors in the year, and provides transparency on our policies that will become effective on 1 April 2022 for the next financial year. The remuneration policy provides a clear link between remuneration and our vision to be an outstanding water company that delivers service excellence.

In April 2022 we updated the executive pay policy reflecting Ofwat's executive pay remuneration recommendations made during the PR19 business plan process, together with Ofwat's views under its Board Leadership, Transparency and Governance Principles. The Remuneration Policy aims to be transparent on how executives are remunerated and ensures any performance-related element is linked to customer interests, increasing the focus and weighting on the environmental metrics and that the targets set are stretching in nature.

This updated Remuneration Policy in place for 2021/22 continued to allow the Committee the flexibility to consider pay awards in the context of the Company's response to the COVID-19 pandemic and other external pressures, ensuring that the appropriate remuneration has been provided to executives, and the wider employees in light of another year of difficult circumstances.

Each year we agree our employee payrise with our employee representation forum the Joint Negotiation and Consultative Committee. The focus this year has, as expected, been on the increases in cost of living and the Company has provided all employees with a 3.5% contribution to this, commencing 1 April 2022.

The executive Remuneration Policy in place for 2022/23 has also been updated, in light of recent comments from Ofwat, to increase the weighting on environmental and reputational resilience matters, within the Company's long-term incentive plans (LTIPs). The latter now aligns weighting in this area to 30% of potential LTIP award, similar to the weighting attributed to customer service and support. Performance targets are continually assessed to ensure they remain stretching throughout the 2020 to 2025 business plan period.

Full details of the executive remuneration policy matters, in addition to the achievements against the targets for 2021/22 which are also shared by all employees – and the consequent bonuses payable to executive directors – are set out in this report.

The Committee oversaw remuneration arrangements for senior executives and managers joining the Company and was pleased to see that the existing policy framework continues to prove effective in attracting talent that will be well suited to contributing to the success of the Company for many years to come.

As well as the financial packages that we offer our employees we are proud to offer a range of wellbeing schemes offering mental health support, access to financial, legal and lifestyle support tools to ensure that we support our employees through every aspect of their wellbeing. We have also launched two leadership programmes for our aspiring managers to ensure that we grow and develop our leaders to their full potential.

The Committee continues to drive the diversity agenda and are proud that we provide equal opportunities for everyone in our business. We continue to review our gender pay gap and data from the latest available report dated (5 April 2021) is detailed in this report. Our 2021 report showed that the difference in average pay has improved to 12.3% (2020: 15.1%), this improvement is driven by our commitment to create a diverse and gender-balanced workforce, ensuring equal opportunities for all employees and reflecting the customers that we serve.

The most recent review of the effectiveness of the Board and its committees concluded the Remuneration Committee continued to fulfil its objective appropriately.

Jon Woods
Chair of the Remuneration Committee

8 July 2022

Implementation of directors' remuneration policy in 2021/22

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2021/22.

Base salary
Core element of a fixed amount, reflecting the size and scope of the role.

Benefits
Appropriate and sufficient level of benefits based on individual circumstances. Includes car allowance and private medical insurance for example.

Retirement benefits
Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate).

Annual bonus
Rewards performance against annual targets which support the strategic direction of the Company.

Long-term incentive plan
Rewards performance against targets set by the Board for financial performance over three years.

Membership and attendance:

Jon Woods, Chair	**2/2**
Murray Legg	**2/2**
Dave Shemmans	**2/2**

Attendees:
The Chief Executive Officer attends meetings for all business other than any business relating to his own remuneration. The Company Secretary or his nominee acts as secretary to the Committee.

Responsibilities:

- Making recommendations to the Board on the framework for remuneration of the Chairman, independent non-executive directors, Chief Executive Officer, Chief Financial Officer and members of the senior management team
- Approving the design of and determining targets for the Company's performance-related pay schemes and approving total annual payments under such schemes
- Determining the total individual remuneration package of each executive director including, where appropriate, bonuses and incentive payments
- Determining policy for and scope of pension arrangements and service agreements for executive directors and designated senior executives
- Ensuring that disclosures of remuneration comply with the relevant regulations and obligations applicable to the Company.

Terms of reference:

The Committee's full terms of reference as approved by the Board can be on the Company's website.

Annual Report on Remuneration continued

Gender pay and bonus pay gap percentages

The differences in adjusted hourly pay between the average (mean) or middle (median) man and the average or middle woman expressed as a percentage of the man's pay.

The differences in the total bonuses paid to the average (mean) or middle (median) man and the average or middle woman expressed as a percentage of the man's total bonus.

Gender pay gap 2021 (%)

2021 2020

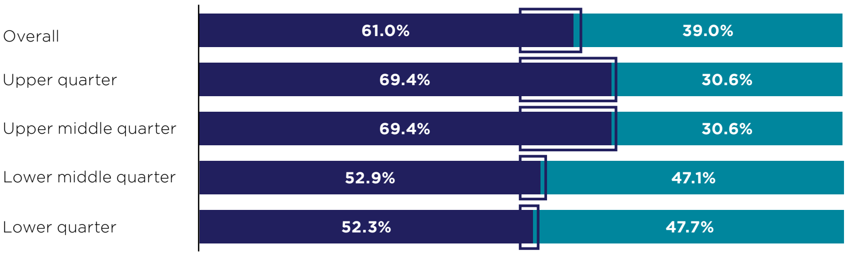
Bonus pay gap 2021 (%)

2021 2020

Pay quarters

The charts below illustrate the gender distribution across SES Water in four quarters.

Men Women Men over-represented Women over-represented



Gender split by role

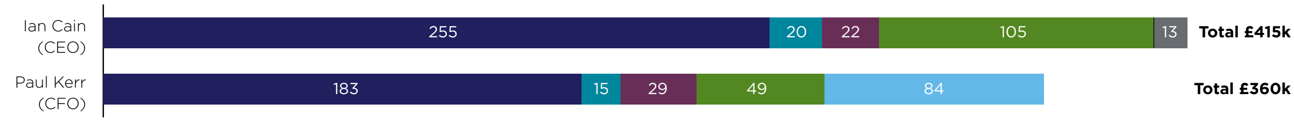
	Female	Male	Total
Director	0	2	2
Employee	129	190	319
Non-executive director (NED)		4	4
Senior manager	8	13	21
Total	136	210	346

Implementation of director's remuneration policy in 2021/22

The table below summarises the implementation of the director's remuneration policy for executive directors in 2021/22. As described further in this report, an updated executive directors' remuneration policy has been implemented from 1 April 2022 onwards which has enhanced the executive pay policy with respect to LTIP awards further.

Total pay due to executive directors (£000)

Fixed Benefits Pension Bonus LTIP Other benefits

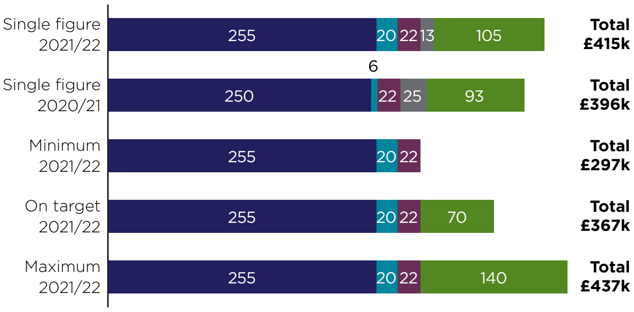


Single total figure of remuneration for executive directors for 2021/22 compared with outcomes

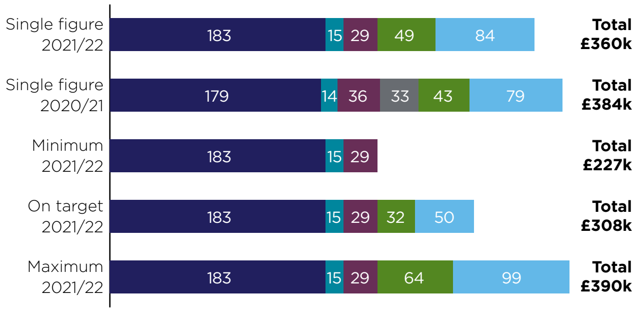
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits, bonus, LTIP. The charts below show the relative split between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 102.

Fixed Benefits Pension Bonus LTIP Other benefits

Ian Cain (£000)



Paul Kerr (£000)



The Company's remuneration policy is designed to attract and retain good quality senior executives having regard to other UK-based businesses. It provides for a remuneration package, the variable element of which reflects the Company's performance against stretching customer service, operational and financial objectives. The Board considers that the performance element of the remuneration package is appropriate given the main activities of the Company. Full details of each component of the director's remuneration applicable for the 12 months ended 31 March 2022 are shown below.

Updated remuneration policy – effective from 1 April 2022

While this remuneration report focuses on Board and executive directors' remuneration for the year-ended 31 March 2022, the Board acknowledges and fully agrees with Ofwat's recent pronouncements on its expectations with respect to companies being transparent about how executives are remunerated and especially how any performance-related element is linked to customer interests and the measures are stretching in nature.

Specifically, for the updated remuneration policy effective from 1 April 2022, the Remuneration Committee has clarified the substantial link between executive pay and delivery for customers and the environment within the Company's long-term incentive plans (LTIPs). The latter now clarifies further the customer-based targets and measurement criteria, strengthening the position that 70% of any potential LTIP award to aligned to customer performance and service and 30% relating to our environmental performance

Performance targets will continue to be regularly assessed to ensure they remain stretching throughout the 2020 to 2025 business plan period.

The Remuneration Committee still retains the power to reduce all or part of performance-related pay payments resulting from exceptional circumstances.

In terms of the process for determining potential executive annual bonus and LTIP payments, the Remuneration Committee reviews progress against objectives in each of its meetings during the year, based on the most recent performance data against the set measurement criteria. This includes both actual financial and non-financial performance data, together with forecast data for the remainder of the year or term of the relevant LTIP. The Committee also considers other macro-economic or geopolitical factors influencing any particular measurement period. Final decisions on both annual bonus and LTIP payments are made at the June Committee meeting, following receipt of the externally audited performance results for the year.

Measures are in place to avoid or deal with any potential conflicts of interest that should arise during this process. Neither the Chief Executive Officer nor Chief Financial Officer are present during the discussions of their potential annual bonus or LTIP awards, and the Committee has access to third party audit reports to objectively verify both the financial and non-financial performance of the business, including delivery of service to the Company's customers.

To ensure that the policy and associated annual bonus targets are sufficiently stretching, the Board will ensure any outperformance is only payable if the Company is earning a net reward for the delivery of the customer pledges in any one year. This 'gateway' approach will be particularly demanding given the Company's targets for 2020 to 2025 are typically in the industry upper quartile.

The remuneration policy incorporates business resilience as it includes an assessment of customer performance into the LTIPs as opposed to simply financial performance will ensure that executives have a responsibility to ensure the long-term financial sustainability of the Company and this will be assessed using a set of measurements such as bond ratios, totex efficiency and credit ratings. Such business resilience targets also include network infrastructure, operational and information technology infrastructure resilience measurements. As part of this review of business resilience, the ongoing impact of COVID-19, and how the executives have managed the long-term operational and financial sustainability of the business in the crisis, is a key consideration.

Through our Remuneration Committee, we are committed to being fully transparent and continuously reviewing executive pay policies over time and, where they develop and change, we will explain the reasons in our Annual Report and signal changes to stakeholders. We will also include accessible explanations in 'Keeping it clear', our customer-friendly guide to how we are owned, run and financed.

For clarity in this report, each of the following sections details elements of executive directors' remuneration for the 12 months ended 31 March 2022, for the LTIPs all awards were considered under the updated remuneration policy considered above.

Components of executive directors' remuneration applicable for the 12 months ended 31 March 2022

There are five components of the executive directors' remuneration – three fixed elements (base salary, benefits and retirement benefits) and two variable elements (annual bonus and LTIPs). These five components of remuneration are detailed below.

1. Base salary

Purpose and link to strategy

Core element of fixed remuneration, reflecting the size and scope of the role. Purpose is to recruit and retain directors of the calibre required for the business to drive success and delivery for customers in line with the top quartile of the industry.

Annual Report on Remuneration continued

Operation
Reviewed annually and normally fixed for 12 months commencing 1 April. Whilst executive directors are contractually entitled to an annual review of their salary, there is no entitlement to an increase as a result of this review.

Salary levels are determined by the Committee taking into account a range of factors including:

- Role, experience and performance.
- Prevailing market conditions.
- External benchmarks for similar roles at comparable companies.
- Award levels of the rest of the business.

Opportunity
Increases in base salaries are reviewed in the context of salary increases across the Company as a whole. The Committee considers any reasons why increases should diverge from this benchmark, including:

- Increase in scope, complexity or responsibility of the role.
- Increase on promotion to executive director.
- A salary falling significantly below market positioning.

Performance metrics
Contribution and overall performance in the role are taken into account in determining whether any increase in base salary should be awarded, and if so, at what level.

2. Benefits
Purpose and link to strategy
- Ensures the overall package is competitive
- Purpose is to calibre recruit retain directors of the calibre required for the business.

Operation
Executive directors receive benefits in line with market practice, which include a car allowance, private medical insurance and life assurance. Other benefits may be provided based on the role and individual circumstances. These may include, for example, relocation and travel allowances.

Opportunity
Set at a level which the Committee considers appropriate against the market and provides a sufficient level of benefit based on individual circumstances.

Performance metrics
Not applicable.

3. Retirement benefits
Purpose and link to strategy
- Purpose is to recruit and retain directors of the calibre required for the business
- Provides market-competitive post-employment benefits.
- The executive pension contributions are set per individual's contract. This is higher than other employees within the business (at c15% for the CFO compared to between 6 and 10% for all other employees) and is considered part of their overall remuneration package

Operation
Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate) and, if a member before closure of the scheme, the Company's defined benefit scheme.

The defined benefit scheme was closed to new entrants from 1 May 2020. Any executive director who is a member of the closed scheme can continue to receive benefits in accordance with the terms of the scheme. The executive directors are not members of the defined benefit scheme.

Opportunity
The executive directors have personal pension plans or where appropriate an option of a pension allowance (at the same contribution rate as their pension) in lieu of pension contributions by the Company.

Performance metrics
Not applicable.

4. Annual bonus
Purpose and link to strategy
Rewards performance against annual targets which support the strategic direction of the Company.

Operation
Annual targets include shared corporate targets for the levels of service to customers and other aspects of operational performance, financial performance, and individual targets for the achievement of personal goals. Targets are set by the Board (advised by the Remuneration Committee) before the start of each financial year and are assessed following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the Risk and Compliance Statement. As with all bonuses, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.

Opportunity
The maximum bonus opportunities for the Chief Executive Officer and Chief Financial Officer are 55% and 35% respectively.

The specific customer pledges are broken down further into the following key components, which will be measured and monitored for achievement by the Remuneration Committee. These specific customer pledges have been determined by the Remuneration Committee to be those of most relevance to delivering quality and consistent levels of high customer service in the year-ended 31 March 2022.

Performance metrics

The weighting of annual targets, under the updated remuneration policy, is now across two main categories as follows:

	Customer pledges* (70%)	Personal targets (30%)	Total
Chief Executive Officer	38.5%	16.5%	**55%**
Chief Financial Officer	24.5%	10.5%	**35%**

	% split
Water quality	16.67%
C-MeX	16.67%
Leakage	16.67%
Supply interruptions	16.67%
Per capita consumption	16.67%
Affordability	16.67%
Total	**100.00%**

Performance metrics are selected to align with the Company's strategy. The targets set are designed to be stretching and require year-on-year improvements in overall business performance. In setting stretching performance targets, the Committee takes into account a range of factors, including the Company's medium-term business plans, commitments to customers, regulatory and other obligations, and shareholder expectations.

Personal targets focus upon critical areas of business development, including process and service enhancements, demonstration of the Company's values, and employee leadership and development.

5. Long-term incentive plan

Purpose and link to strategy

Rewards performance against longer term financial targets which support the strategic direction and value of the Company and the Group of which it is a part. In addition, this plan provides an incentive for executives to remain in the business, which provides stability and continuity of key individuals in a competitive marketplace, allowing full focus on achieving customer objectives.

Operation

Targets for financial performance over three years for the Company and the Group of which it is a part are set by the Board (as advised by the Remuneration Committee) annually before the start of the three-year performance period. Rewards only crystallise if the shared corporate targets for the levels of service to customers and other aspects of operational performance (as applicable under the annual bonus) are achieved. Performance is assessed annually following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the Risk and Compliance Statement. Rewards only become payable at the end of the three-year performance period, when performance over the three-year period as a whole is assessed. As with all incentives, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.

Opportunity

Incentive payments for the three-year period vary from on-target performance to maximum opportunities as shown below:

LTIP	On-target	Maximum available
Chief Executive Officer	35%	70%
Chief Financial Officer	30%	60%

Performance metrics

In 2019/20, the remuneration policy was updated to substantially change the targets and measurement criteria for the Company's LTIPs commencing 1 April 2020. This update to the remuneration policy in prior year did not change the on-target and maximum available opportunities available under the LTIP for the CEO and CFO. In 2020/21, these performance targets have been aligned even further to performance for customers, with the requisite weighting as follows:

- Customer performance, service and support – 80%
- Reputational resilience – 20%

The specific measurement criteria are broken down further into the following key components, which will be measured and monitored for achievement by the Remuneration Committee. With the focus primarily on customer performance through long term business resilience, as well as customer service and support, 80% of any potential LTIP award is clearly aligned to delivery for customers.

In addition, and in line with the Company's focus on sustainability, environmental and associated reputation targets are also included within the LTIP schemes, as can be noted in the following breakdown of key components, where progress on the Company's environmental, reputational and overall sustainability agenda form part of the overall executive LTIP scheme.

Annual Report on Remuneration continued

Customer performance through business resilience – 2021/22

Target	Measurement criteria	Weighting
Systems-based resilience	Progress on key aspects of the company-wide resilience plans with a focus on network and operational resilience – Such progress will be achieved through effective totex spend to minimise leakage, supply interruptions and supply failures and efficient capex programmes to minimise unplanned outages and ensuring performance commitments are met. Digital resilience will be a key part of achieving this overall systems-based resilience	15%
Financial resilience	Ensure that customers benefit from a stable financial business that allows prioritisation of customer service – Outperformance of budget (allowing delivery to customers in an economically efficient manner) – Business plan financial covenant and gearing ratios are met – Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions	35%
Total weighting		**50%**

Customer service and support – 2021/22

Target	Measurement criteria	Weighting
Value to customers	Development, deployment and delivery of a company-wide, cost effective customer plan that solidifies our position as a customer-orientated organisation and drives improvements in our C-MeX standing	15%
Financial resilience	Achievement of social tariff and Priority Services Register targets in line with the Company's business plans to ensure appropriate support for our most vulnerable customers	15%
Total weighting		**30%**

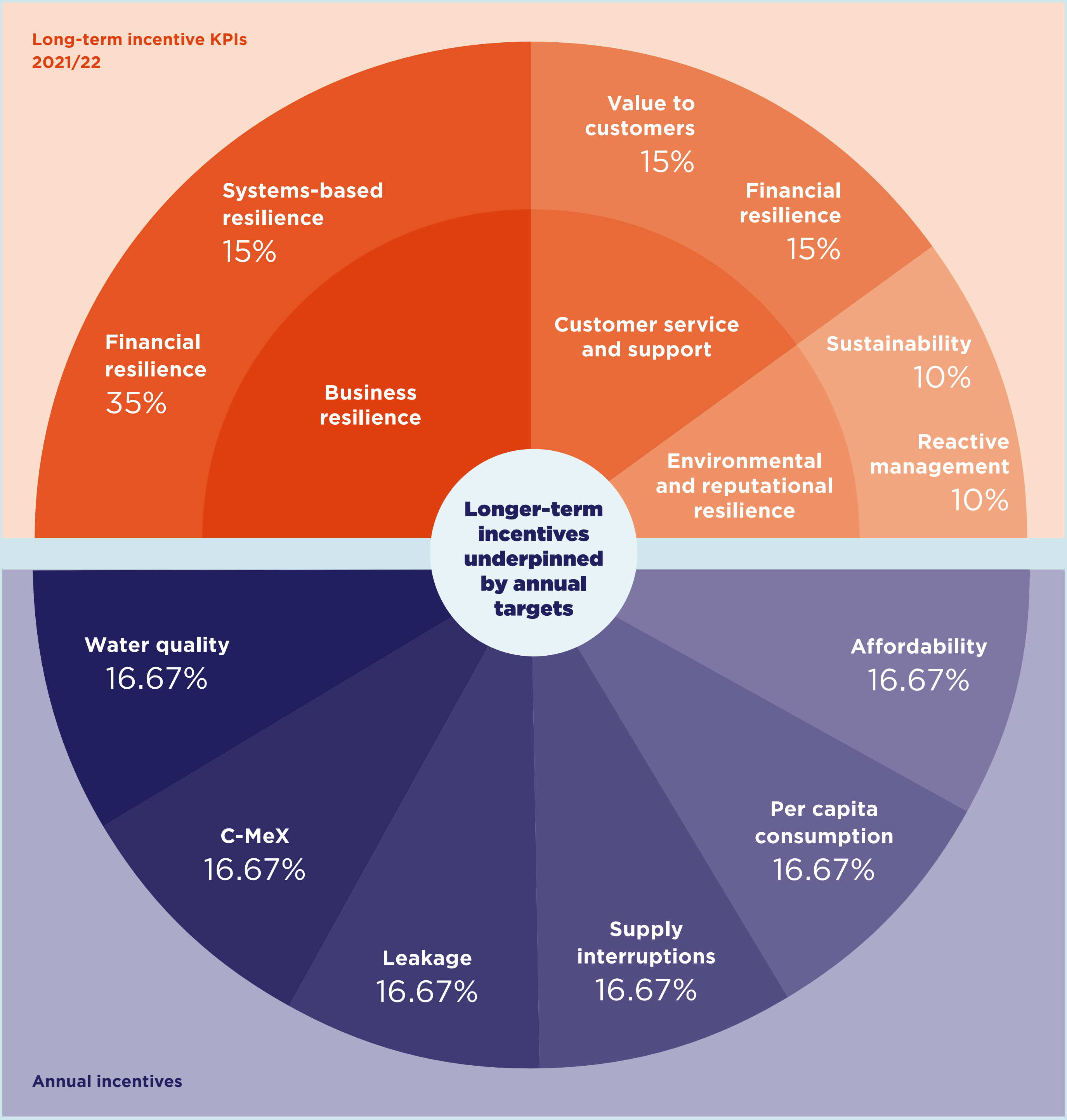
Environmental and reputational resilience – 2021/22

Target	Measurement criteria	Weighting
Proactive sustainability and social steps	Proactive steps taken to enhance reputation, including embracing and implementing a social value agenda and bring to life the Company's environmental agenda (aligned to the water sector's Public Interest Commitments, including net zero carbon)	**10%**
Reactive management	Appropriateness of steps taken by management in light of potential reputational issues	**10%**
Total weighting		**20%**

There has been no deviation from the above policy in the year for any of the executive directors.

Linkage of annual and long-term incentives to business strategy

While the remuneration policy above notes the basis for measurement of the variable element of executive pay, it has been important for the Committee to ensure that both annual and long-term element of pay are firmly connected to the overall strategic aims of the business, which can be summarised as follows. The focus on resilience in all its forms – business, financial, customer service, environmental and reputational – aligns to our overall business vision of being an outstanding water company that deliver service excellence.



Annual Report on Remuneration continued

Remuneration scenarios for executive directors

	Minimum	On target	Maximum
Fixed pay	Fixed elements of remuneration are base salary and pensions. Base salary and the value of benefits are included in the single figure calculations on page 96.	Not Applicable	Not applicable
Variable – bonus	No bonus	50% of potential annual bonus achieved for delivering at performance against the respective bonus targets	100% of potential annual bonus achieved for delivering at or above the highest performance against the respective bonus targets
Variable – LTIP	No reward earned	On Target reward earned (CEO 35%, CFO 30%)	Maximum reward earned (CEO 70%, CFO 60%)

Non-executive director fees
Non-executive directors receive only a fee, which is set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge, skills and experience. Fees are based on the level of fees paid to non-executive directors serving on the Boards of comparable companies and the time commitment and contribution expected for the role. Fees comprise a basic fee plus enhancements for additional responsibilities including chairing Committees. Non-executive directors representing shareholders receive no fees from the Company.

Fees are reviewed every year and amended to reflect market positioning and any change in responsibilities. The Committee and Chief Executive Officer recommend the remuneration of the Chairman to the Board. The Chairman, Chief Executive Officer and Company Secretary recommend the remuneration of other non-executive directors to the Board. Non-executive directors do not receive an annual bonus nor do they receive any benefits or pension contributions.

On 26 May 2022 we appointed Rebecca Wiles as a new independent non-executive director, see page 73 of the nomination committee report for further details.

Pay and conditions for other employees
The Company aims to provide an overall remuneration package for all its employees that not only complies with any statutory requirements but is competitive with remuneration for equivalent skills offered by other comparable employers. Remuneration is applied fairly and equitably across all employees. In particular, the Company applies the same core principles to all employees, whether executive directors or the most junior members of staff, namely:

- Employees will be remunerated in a manner that underpins the long-term stability of the business
- Each role will be remunerated fairly and consistently with due regard to market conditions, internal consistency and the Company's ability to pay.

Many elements of fixed pay, benefits and pension arrangements are common to all employees. In particular, employees all have the same rights to participate albeit it at different rates in the Company's defined contribution pension scheme (and for those employees joining before 1 May 2002, the Company's defined benefit pension scheme), the cash health plan introduced in 2014 and the employee annual bonus scheme introduced in 2015.

Gender Pay
As a Company, we do not discriminate on gender pay and provide equal opportunities for progression within our business.

However, we commissioned our fifth gender pay gap report for 5 April 2021, the report showed that the difference in average pay is 12.3% (2020: 15.1%). This is in main due to an uneven distribution of females in the company, however we have seen an overall increase in female representation in the Company of 2.2%. It is not uncommon in the water industry to employ few women, as the STEM (science, technology, engineering and maths) fields have been predominantly male occupations with historically low participation among women.

At SES Water we understand that people are our greatest asset and believe that by creating a diverse, gender balanced workforce that this not only helps to ensure that we have equal opportunities for all employees but also reflects the customers we serve. We continue to push ourselves in the recruitment process to ensure we are inclusive across all areas and ensure that our performance review process is fair across all employees regardless of gender. We also ensure that – when we recruit for senior roles – we have a gender balanced objective and task our search consultants to provide a long list of candidates for both genders, and we do not select or bias on gender in the final selection.

Annual pay awards

Annual pay awards for most employees are negotiated with employee representatives taking into account the Company's ability to pay, comparable awards in other businesses, and increases in the cost of living for employees. Agreed awards are effective from 1 April each year.

The payrises included in this report were previously agreed in early 2020 for the two year period ending March 2022 and comprised of:

- An annual pay increase of 2.2% for 2020 based on the November 2019 Retail Price Index (RPI) and for 2021 this will move to a blended rate of 50% of the November 2020 Consumer Price Index Household (CPIH) and 50% of the November 2020 RPI. This includes a guaranteed minimum increase of 2% for 2021 if the blended rate is less than 2%
- Annual pay increases will coincide with the start of each financial year
- The annual pay rise will include basic pay, overtime, shift allowances, seven day working and other allowances
- Further to the pay increase it was agreed that an additional one day of holiday entitlement, for 2020/21 only, will be provided to all employees who joined on or before 2 January 2020. This is in recognition of the significant contribution and efforts by all employees in preparation for the challenging customer and performance deliverables we will target in our Business Plan for 2020 to 2025.
- The opportunity to earn an employee bonus upon achievement of Company customer service, health, safety, quality, environmental and financial targets. From 1 April 2017 the maximum bonus payable for achievement of all targets was £550 p.a.

In February 2022 the annual pay agreement for the year commencing 1 April 2022 was reached with employee representatives including, among other items, an annual pay increase of 3.5%.

The Remuneration Committee takes into account the annual pay award for employees alongside the factors outlined above when considering any basic pay award for executive directors. Senior employees who are eligible for an annual bonus award share the same customer service, operational, financial and behavioural targets as the executive directors and have personal targets set in the same manner and consistent with those of the executive directors.

Recruitment remuneration policy

When hiring a new executive director, the Committee will seek to use the policy detailed in the tables above to determine an appropriate ongoing remuneration package. If necessary, to facilitate the hiring of an executive of appropriate calibre, the Committee may exercise discretion to include any other remuneration component or award outside this policy as agreed with the Board. Appropriate costs and support will be covered if the recruitment requires the individual to relocate.

Service contracts

The service contracts for executive directors are subject to twelve months' notice when terminated by the Company and six months' notice when terminated by the employee. The executive directors' contracts commenced on the following dates:

- Ian Cain – 12 February 2020
- Paul Kerr – 13 April 2018

The non-executive directors, including the Chair, do not have service contracts and their appointments, while for a term of three years, may be terminated without compensation at any time. The Chair and the independent non-executive directors have letters of appointment. The appointments of the current non-executive directors commenced on the following dates:

- Jeremy Pelczer – 1 April 2013 (resigned 23 March 2022)
- Dave Shemmans – 1 September 2014
- Murray Legg – 1 October 2015
- Jon Woods – 1 March 2016
- Seiji Kitajima – 6 February 2019 (resigned on 1 June 2021)
- Kenji Oida – 1 May 2019
- Ken Kageyama – 1 June 2021
- Rebecca Wiles – 26 May 2022

Annual Report on Remuneration continued

Single total figure of remuneration (audited)

The table below shows the total remuneration earned by each director in 2021/22.

	Salary		Taxable benefits[1]		Annual bonus[2]		Long-term incentive[3]	
£000	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Executive directors								
Ian Cain	**255**	250	**20**	6	**105**	93	**–**	–
Paul Kerr	**183**	179	**15**	14	**49**	43	**84**	79
Total exec directors	**438**	429	**35**	20	**154**	136	**84**	79
Non-executive directors[6]								
Jeremy Pelczer	**68**	66	**–**	–	**–**	–	**–**	–
Murray Legg	**39**	39	**–**	–	**–**	–	**–**	–
David Shemmans	**39**	36	**–**	–	**–**	–	**–**	–
Jon Woods	**34**	33	**–**	–	**–**	–	**–**	–
Total non-exec directors	**180**	174	**–**	–	**–**	–	**–**	–
Total	**618**	**603**	**35**	**20**	**154**	**136**	**84**	**79**

1 Taxable benefits include car allowances, private medical insurance and medical cash plan.

2 Annual bonuses are variable and were determined in accordance with the remuneration policy described on page 95 and reflect the performance against the targets on page 99.

3 The 2019 LTIP scheme closed on 31 March 2022 and a payment of £83,800 was made to Paul Kerr in respect of this scheme as detailed below. The other current LTIP schemes (the 2020 and 2021 LTIP) have expected payments accrued as at 31 March 22 but are not disclosed because the performance periods have not yet ended, given the payment dates of 2023 and 2024 respectively.

4 Pension-related benefits represent the company's contributions to the directors' personal pension plans.

Relevant details of the annual bonus scheme

The targets shown below are common to all employees including executive and senior management:

Customer Pledge	% split	Actual result
Water Quality	16.70%	13.4%
C-Mex/D-Mex	16.70%	5.5%
Leakage	16.70%	16.7%
Supply interruptions	16.70%	16.7%
PCC	16.70%	8.4%
Affordability	16.70%	12.5%
Total	**100.00%**	**73.2%**

Pension related benefits[4]		Other Payments[5]		Total Remuneration		Fixed Remuneration		Variable Remuneration	
2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
22	22	**13**	25	**415**	396	**310**	303	**105**	93
29	36	**–**	33	**360**	384	**227**	262	**133**	122
51	58	**13**	58	**775**	780	**537**	565	**238**	215
–	–	**–**	–	**68**	66	**68**	66	**–**	–
–	–	**–**	–	**39**	39	**39**	39	**–**	–
–	–	**–**	–	**39**	36	**39**	36	**–**	–
–	–	**–**	–	**34**	33	**34**	33	**–**	–
–	–	**–**	–	**180**	174	**180**	174	**–**	–
51	**58**	**13**	**58**	**955**	**954**	**717**	**739**	**238**	**215**

5 Other payments include payment to Ian Cain of £12,500 (2020: £25,000) for mitigation of loss of bonus and LTIP payments from previous employment.

6 Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 102. Jeremy Pelczer, the Board Chair, also acts as the Chair of East Surrey Holdings Limited, and Murray Legg, the Audit Committee Chair, also acts as the Audit Committee Chair of East Surrey Holdings Limited, for which they are separately remunerated by East Surrey Holdings Limited. None of the other non-executives received any remuneration from the Company.

Explanation of variable pay element for CEO and CFO on 31 March 2022 (audited)

Annual bonus payments

The annual bonus payments for Ian Cain and Paul Kerr of £105k and £49k for the year-ended 31 March 2022 as noted above were based achievement of specific customer pledges and personal targets for the year, with the results as follows:

	Customer pledges			Personal			Total bonus		
	Max %	Actual %	Actual £	Max %	Actual %	Actual £	Max %	Actual %	Actual £
Ian Cain	38.5%	28.2%	£71.8k	16.5%	13.2%	£33.6k	55%	41.4%	£105.4k
Paul Kerr	24.5%	17.9%	£32.8k	10.5%	8.6%	£15.8k	35%	26.5%	£48.5k

Annual bonus targets

Customer pledge targets

In line with the Company's executive pay remuneration policy, bonuses equivalent to a maximum of 38.5% and 24.5% of Ian and Paul's annual salaries respectively relates to achievement of six specific customer pledges, equally weighted. The actual bonus targets for each of these pledges is primarily achievement of the associated performance commitment in the year in line with associated outcome delivery incentive – for example the target for supply interruptions is ensuring that the 6.08 minutes/property/year was not breached. The Remuneration Committee then consider further achievement of these bonus targets associated with the pledges in terms of the manner of their achievement and any mitigating or external factors to conclude on actual performance against target. The final result of this assessment is provided below, including the reasoning for the Committee's final consideration of % of pledges (and therefore bonus targets) achieved. Both executives were awarded 73.2% of these bonus levels – resulting in an actual payout of 41.4% and 26.5% of their annual salaries respectively

Annual Report on Remuneration continued

Customer Pledge	% split	% Achieved	Comment	Actual result
Water Quality	16.70%	80.00%	While certain regulatory targets were marginally missed, overall water quality remains in the top half of the industry and there were no significant events in the year.	13.4%
C-Mex/D-Mex	16.70%	33.00%	Reflects the fact that, despite strong customer satisfaction score from regular Company reviews with customers, CMEX position of 14th place confirmed for the year and DMEX performance not at targeted levels	5.5%
Leakage	16.70%	100.00%	Leakage target was achieved in the year, but work continues to be completed to reach AMP targets	16.7%
Supply interruptions	16.70%	100.00%	Our performance in the year has been within target to keep interruptions to a minimum.	16.7%
PCC	16.70%	50.00%	While PCC has been severely impacted by Covid-19 in the current year and target has not been met, there has been positive activity on metering and water efficiency programmes in difficult circumstances in the year	8.4%
Affordability	16.70%	75.00%	Reflects the significant efforts to support customers financially during the Covid-19 pandemic via social tariff and payment holidays, but mitigated by poor voids performance	12.5%
Total	**100.00%**			**73.2%**

Personal targets

In line with the Company's executive pay remuneration policy, bonuses equivalent to a maximum of 16.5% and 10.5% of Ian and Paul's annual salaries respectively relate to achievement of their personal objectives for the year. Actual performance against these personal objectives resulted in Ian and Paul receiving 80% and 82% respectively of these personal bonus levels – resulting in an actual payout of 13.2% and 8.6% of their annual salaries respectively. These payout levels reflected the achievement of a significant number of their personal objectives, including ensuring stable management of daily operations, key recruitment and restructuring targets and substantial improvements in the areas of governance and controls across the business.

LTIP payments

Paul Kerr was awarded a LTIP payment of £83.8k in respect of the 2019 LTIP, which represented 85% of the maximum reward. In accordance with the 2019 LTIP scheme rules and metrics, the proposed payment gateway based on financial performance was not met due to the impact of Covid and other one-off items, therefore the committee exercised discretion and this payout reflects achievement of overall performance metrics for the three years to 31 March 2022, including an assessment of the contribution from Paul to the businesses customer, regulatory, environmental and governance performance over the three-year period under review. Note that, in accordance with the enhanced executive pay remuneration policy for LTIPs, future LTIP performance – commencing with the 2020 LTIP – will be assessed against the criteria noted on page 100.

Percentage change in remuneration for the CEO and CFO

The table below shows the percentage change in remuneration between the years ended 31 March 2022 and 31 March 2021 for the CEO, CFO and all employees

	2022			2021		
	Salaries and Fees	**Taxable Benefits**	**Annual Incentive**	Salaries and Fees	Taxable Benefits	Annual Incentive
CEO[1]	**2.0%**	**230%**	**13.6%**	0%	0%	416.7%
CFO[2]	**2.0%**	**8.2%**	**12.0%**	2.2%	0%	149%
All employees	**3.5%**	**0%**	**7.4%**	2.2%	(2.1%)	7.3%

1 The 2021 CEO annual incentive increase of 417% is driven by a bonus covering 1 month of Ian Cain joining in February 2020 for financial year ending 31 March 2020 comparing to a full year's bonus earned in financial year ending March 2021.

2 The 2021 CFO annual incentive increase of 149% is driven by the first LTIP payment being made covering the years 2018 to 2021.

The non-executive directors aligned to all employees received a 2.2% payrise, this is reviewed annually.

CEO pay ratio

As in prior year reporting and in line with regulatory requirements, we have chosen to use the Department of Business, Energy and Industrial Strategy (BEIS) methodology Option A to show the pay ratio between the CEO compared to the total remuneration received by all employees. This includes all remuneration elements including benefits, overtime and long term incentives.

The table below provides the ratio between the CEO single figure remuneration, and the median, 25th and 75th percentile remuneration of all full time equivalent employees as at 31 March 2022.

The calculations shown below are effective 31 March of each year stated and there are no divergences noted from the single total figure between the CEO and employees' pay and benefits.

The closure of the gap on the ratios is driven by the change in leadership and therefore remuneration over the three-year period.

The salary and total pay for employees in the 25th percentile is £25,000 salary (total pay £28,773), for median salary is £29,295 (total pay £29,784) and for 75th percentile salary of £40,794 (total pay of £42,347).

Year	Method	25th Percentile ratio	Median	75th Percentile ratio
2022	Option A	14:1	14:1	10:1
2021	Option A	14:1	12:1	9:1
2020	Option A	17:1	12:1	9:1

Relative importance of employment costs

The table below shows the total of all the Company's employees compared to interest paid and capital expenditure both being key expenses in the Company to finance the business and invest in its asset base.

£000	**2022**	2021	% change
Employee costs	**15,369**	14,421	6.5%
Interest expense	**15,923**	7,950	100%
Capital expenditure	**27,000**	25,600	5.4%

Directors' report

The directors present their report and audited financial statements for the Company for the year ended 31 March 2022.

Directors and their interests

The directors who served during the year or were appointed before this report was issued were:

- J Pelczer, Chair (resigned 23 March 2022)
- D Shemmans, Chair and independent non-executive (appointed as Chair 24 March 2022)
- I Cain, Chief Executive Officer
- P Kerr, Chief Financial Officer and Company Secretary
- M Legg, senior independent non-executive
- J Woods, independent non-executive
- R Wiles, non-executive (appointed 26 May 2022)
- S Kitajima, non-executive (resigned 1 June 2021)
- K Kageyama, non-executive (appointed 1 June 2021)
- K Oida, non-executive

Service contracts

All current executive directors have service contracts and notice periods as detailed in the Remuneration Committee report on page 103.

Contracts of significance

There were no contracts of significance (including provision of services) existing in the year between the Company and controlling shareholders, or to which the Company is a party and in which a director of the Company is, or was, materially interested.

Further information about directors' interests, together with confirmations and appointments, is contained in the Nomination and Remuneration Committee reports on pages 86 and 94.

Reappointment

The articles of association provide that directors must retire at every Annual General Meeting following their last election or reappointment, which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the 'Code'), that all directors should be subject to annual election. Information regarding the appointment of directors is included in the Corporate Governance report on page 87.

Ownership and relationship with associated companies

The Company is incorporated as a private limited company and domiciled in the UK, with its registered office and principal place of business at 66-74 London Road, Redhill, Surrey, England, RH1 1LJ.

The Company is jointly owned by the major Japanese businesses, Sumitomo Corporation and Osaka Gas. Each has a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd. The full corporate structure is shown on page 5. Except where indicated, all companies within this corporate structure are domiciled in the UK for tax purposes.

Financial transactions with associated companies are disclosed in the statutory accounts on page 148 and further detailed in the regulatory accounts in the annual performance report.

Sumisho Osaka Gas Water UK Ltd was established at the time Osaka Gas became a shareholder to enable joint ownership of the East Surrey Holdings Group and is entirely financed by shareholders' equity. East Surrey Holdings Ltd is the holding company for the trading companies of the Group and was the entity acquired by Sumitomo Corporation in February 2013.

The immediate parent of the Company is SESW Holding Company Limited (which wholly owns the Company) and was established at the time that the Company's £100 million index-linked bond was issued in March 2001 to protect the interests of bond holders by exercising control over distributions. The Company is an associate of other trading and property businesses within the East Surrey Holdings Group, transactions with whom are disclosed on page 148.

The Company has entered into a management agreement with Sumitomo Corporation and Osaka Gas, as controlling shareholders, which complies with the independence procedures as set out in the Listing Rules 6.1.4D. Both the Company and the shareholders (as far as the Company is aware) have complied with these independence provisions. Further information with respect to the Code of conduct applied by the controlling shareholders with respect to the Company is contained within the Corporate Governance report on page 85.

Directors' indemnities and insurance

There are contractual entitlements in place for the directors of the Company to claim indemnification by the Company in respect of certain liabilities, which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provisions, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the Company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the Company.

The Company also maintains an appropriate level of directors' and officers' liability insurance.

Principal activities

The Company is engaged principally in the supply of water across the London Boroughs of Croydon (4%), Merton (9%) and Sutton (62%), as well as Reigate and Banstead (13%), Epsom and Ewell (11%) and parts of Kent and West Sussex.

Stakeholder engagement – employee engagement

Details of engagement by the directors during the year with the Company's employees is provided on pages 44, 47 and 64.

Stakeholder engagement – other engagement

Details of engagement by the directors during the year with the Company's other stakeholders is provided on pages 44, 45 and 46.

Financial results and dividends

Financial performance for the year is described on pages 59 and 60 in the financial review.

Revenue for the year ended 31 March 2022 was £63.0m (2021: £65.8 million). (Loss)/profit before taxation was (Loss of £5.4 million) compared to a profit in 2021 of £3.9 million. A loss of £17.3m was deducted from reserves (2021: £3.6m profit transfer, however sufficient reserves were still available as at 31 March 2022).

Details of ordinary dividends declared and paid during the year are given in note 22 of the financial statements. The total dividend declared and paid for the year ended 31 March 2022 was 0.34 pence (2021: 0.37 pence) per ordinary share.

Dividend policy statement

The Board considers that the base level of ordinary dividend for the appointed business should reflect the return on regulatory equity (defined as regulatory capital value less net debt) allowed in the regulator's most recent price review, subject to the Company having adequate resources available to fulfil its overall service commitments and its other financial obligations.

This includes compliance with the covenants associated with its index-linked bond (which are designed to protect the interests of the Company's creditors).

The Board will consider variations from this base level of ordinary dividend reflecting:

- The overall level of service delivered to customers, compliance with statutory obligations, progress with the delivery of regulatory and other obligations. Such other obligations will include delivering to our communities and employees – ensuring that "in-the-round" delivery is considered
- Known and forecast financial and non-financial performance against regulatory assumptions and internal targets, taking account of the relative importance to customers and stakeholders of such targets.

The Board will explain the way in which these factors have been taken into account in arriving at the dividend declared in the Company's Annual Report, and other publications, and will refer to any quantitative analysis required by reporting standards in support of such explanations.

The Board will adjust base dividends, if necessary, to reflect the Company's performance and delivery to customers, and will take account of the performance levels recently agreed with Ofwat as part of its final determination. These performance levels will include consideration of such items as water quality, leakage levels, C-MeX performance, achieving our supply interruption target and ensuring improved resilience to reduce the risk of supply failures.

In particular, before declaring any dividend (including the base dividend) the Company will consider whether:

- The payments would cause significant harm to the Company's financial resilience and the potential impact any distributions may have on customers or employees
- Any payment of outperformance dividends in excess of the return on regulatory equity allowed in the regulator's most recent price review would not be made where the Company was materially failing to meet its performance targets, unless the dividend was accompanied by investment aimed at improving that position.
- Any constraints on dividends resulting from the Company's current credit rating

The above dividend policy is published on the Company's website and is supplemented by a diagrammatical representation of how the Board applies this dividend policy.

The dividend paid by the appointed business for the year ended 31 March 2022 was £2.9m (2021: £4.3m). This dividend has been calculated using the latest RCV and net debt amounts for the Company and applying Ofwat's allowed level of return as defined in the Company's Final Determination.

Board's consideration of dividend payments

Dividends paid in the year-ended 31 March 2022

Due to the timing of appointed dividends declared and paid in the financial year, the appointed dividend paid in the year-ended 31 March 2022 comprised of the final appointed dividend from the year-ended 31 March 2021 (£1.4m paid in June 2021) and the interim appointed dividend in respect of the year-ended 31 March 2022 of c£1.5m paid in November 2021. This total appointed dividend paid in the year-ended 31 March 2022 of c£2.92m represents a dividend yield for the year-ended 31 March 2022 of 3.5% (2021: 5.1%)

Directors' report continued

Dividends payable for the year-ended 31 March 2022

The appointed dividend payable for the year-ended 31 March 2022 comprises of the interim appointed dividend paid in November 2021 noted above, and a final appointed dividend, approved by the Board and paid in May 2022.

The Board considered both the interim and final appointed dividend in respect of the year-ended 31 March 2022 were appropriate and in line with the Company's dividend policy given that:

- The dividend has been calculated based on the allowed return on regulatory equity allowed in the PR19 determination of 3.77%
- Performance has substantially improved since prior year in terms of meeting our obligations and commitments to customers. Rewards under the regulatory framework for leakage and supply interruptions have been achieved, together with a strong water quality performance and significant support for our vulnerable customers. While certain commitments were not met – for example C-MeX, D-MeX and Voids performance – the successful implementation of the Company's new billing system and improved performance in these areas were considered positive customer service factors in consideration of the proposed dividend payment
- Forecast profit before tax in the last two years of the AMP returns to higher levels when the impact of current high inflation on revenues is realised – there is not an expectation of a sustained downturn in profits
- There is no historical precedent of adjusting dividend levels when the Company's profitability has been positively or negatively impacted by the non-cash effects of inflation on indexation, on our long-term bond or deferred tax changes. The Board do not recommend adjusting dividends for such matters in the current year when a loss after tax has been incurred as noted above
- The long-term financial resilience of the Company is considered strong and supportive of the dividend payment – with a Baa2 stable credit rating from Moodys, a stable regulatory gearing of 72% and a detailed long-term viability assessment that supports the Company's ability to fulfil its obligations up to 2032
- There are sufficient distributable reserves and available cash within the Company to pay such dividends
- Sufficient liquidity exists under 2022/23 budget, with financial ratios being met, to pay the final appointed dividend
- The shareholders remain supportive, ensuring the company acts in the public interest.

The dividends paid by the non-appointed business was £0.6m (2021: £0.6m). Dividends from non-appointed activities undertaken by the Company are determined based on the financial performance and prospects of these activities and their anticipated need for future investment.

Future developments

A review of future developments for the water industry and the potential effect on the Company is provided within the market review on page 16.

Research and development

SES continue to develop innovative solutions and additionally contribute to the national innovation agenda. As well as trialling and deploying the UK's first fully smart water network, we have played a leading role in developing the water industry's ground-breaking leakage roadmap. We are now applying the expertise and learning we have gained into the Internet of Things and Artificial Intelligence into our above ground asset solutions. We have submitted three entries into the OFWAT innovation competitions, although ultimately these failed to be awarded funding. In total we have been partners in 13 submissions, six of which have been successful. In recognition of our expertise and innovation, we have been shortlisted for both the Asset Management Initiative of the Year and the Smart Water Networks Award at this year's Water Industry Awards.

Greenhouse gas emissions

Greenhouse gas emissions are calculated using the UK Water Industry Research Carbon Accounting Workbook which is updated annually to reflect changes to emission factors and carbon reporting guidance from the UK Government.

Net operational greenhouse gas emissions in 2021/22 were 2,800 tonnes of carbon dioxide equivalent (tCO_2eq) (2020/21: 2,550 tCO_2eq), a 9.8% reduction on the previous year. This equates to operational emissions of 46 $kgCO_2eq$ per million litres of treated water (2020/21: 40 $kgCO_2eq$). Using 2020/21 emissions factors, operational emissions for 2021/22 would be equivalent to 42 $kgCO_2e$ per million litres of treated water.

Operational greenhouse gas emissions for 2021/22 for the regulated business include (2020/21 emissions are in brackets):

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from outsourced services and business travel)

	FY2022 (tCO_2e)
Scope 1	1,070
Scope 2	–
Scope 3	1,730
Gross	2,800

- Gas consumption: 1,244,341 kWh and 228 tCO_2e (1,210,127 kWh and 223 tCO_2e)
- Consumption of travel fuels: 4,603,677 kWh and 427 tCO_2e (3,703,921 kWh and 397 tCO_2e)
- Purchase of electricity by the company for its own use, including for transport: 52,506,268 kWh and 0 tCO_2e (55,409,645 kWh and 0 tCO_2e).

Note: all conversions are using the 2021 and 2020 greenhouse gas reporting figures on a net calorific value basis.

The data for consumption of transport fuels covers vehicles for which the Company is responsible for the purchase of fuel. It does not include business miles in company cars which are refunded through expenses. This is because the information is not practical to obtain and the Company continues to explore options to digitise the expenses process to make this information more accessible.

In 2021/22 we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. The Company has extended its electric vehicle charging infrastructure to now include 42 charging points across 100% of our operational treatment works and head office. The Company has solar panels installed at five treatment works and at its Redhill head office.

In 2021/22 these generated 290,024 kWh (2020: 266,045 kWh). This year, our first Air Source Heat Pump was installed to provide continuous heating to the gas storage and dosing room at one of our treatment works. This is the first step in a move to replace gas heating systems with renewable heating across all of our sites. In addition, our GHG emissions figure was impacted by COVID-19 due to increased demand for water and decreased vehicle movements during lockdowns.

The Company is part of the Water UK commitment for water companies in England to be net zero carbon by 2030. The water industry's route map to net zero carbon was published in November 2020 followed by our own route map published in June 2021.

Charitable and political donations

During the year the Company made charitable donations amounting to £34,177 (2021: £46,820). This included a £30,000 donation to The Community Foundation for Surrey. There were no political donations (2021: nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of contract terms and it is the Company's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Creditor days remain stable at approximately 17 days (2021: 15 days).

Going concern and long-term viability

The going concern and long-term viability statements required by the Disclosure and Transparency Rules are set out on page 83 of the Corporate Governance Report and are incorporated by reference in this report.

Financial instruments

The Company policy in relation to the use of financial instruments can be found in Note 18 to the financial statements.

Instrument of Appointment and Regulatory Accounts

In accordance with its Instrument of Appointment made under the Water Industry Act 1991 as amended, the directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control of the assets of the Appointed Business.

Post balance sheet events

On 26 May 2022 a dividend of £1.9m was declared in respect of FY22 and paid to the immediate parent company on 31 May 2022.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware:

- There is no relevant audit information of which the Company's auditor is unaware
- Each director has taken all the steps that they ought to have taken as a director in order to make themselves 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 c418 of the Companies Act 2006.

Auditor

PricewaterhouseCoopers LLP ("PwC") is the auditor at the date of this report.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance report on pages 74 to 85 of this Annual Report. The Corporate Governance report forms part of this Directors' report and is incorporated into it.

Annual General Meeting

The 2022 annual general meeting (AGM) will be held on 28 September 2022. Full details of the resolutions proposed to shareholders, and explanatory notes in respect of these resolutions, can be found in the notice of AGM, a copy of which can be found on the SES Water website. At the 2022 AGM, resolutions will be proposed, amongst other matters, to receive the Annual Report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint PwC as statutory auditor.

By Order of the Board

Paul Kerr
Chief Financial Officer
& Company Secretary

Redhill, Surrey
8 July 2022
Company number 02447875

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditor's report to the members of Sutton and East Surrey Water Plc

Report on the audit of the financial statements

Opinion

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2022 (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2022; the Profit and loss account, Statement of comprehensive income, Statement of changes in equity and Cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity

Key audit matters

- Assessment of recoverability of household trade debtors
- Accuracy of measured income accrual

Materiality

- Overall materiality: £392,500 (2021: £392,500) based on approximately 1.7% of adjusted profit before tax for the year.
- Performance materiality: £294,000 (2021: £294,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19 impact on financial reporting, which was a key audit matter last year, is no longer included because of the impact of COVID-19 not being considered to be an area of most significance to our audit, with the level of audit effort spent considering and responding to this risk on the financial reporting and judgements or estimates having reduced compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

Independent auditor's report continued

Key audit matter	How our audit addressed the key audit matter
Assessment of recoverability of household trade debtors Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £7.9m as at 31 March 2022 (2021: £8.3m) (refer to Note 16 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. Overlay adjustments are then applied, namely: that debtors after a period of three years are unrecoverable and fully provided for; an adjustment is applied for estimated recovery by debt collection agencies based on recent collection trends; and an adjustment to allow for the potential adverse impact on recoverability as a result of the current cost of living crisis caused by challenging economic conditions, specifically inflation, reducing the ability of customers to settle their debts. The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	Our procedures included: – Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101. – Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions. – Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. – Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. – Challenging the nature and basis for the overlay adjustments. – Sample testing the underlying data underpinning the historical cash collection rates and validating the integrity of the aged debt report by sample testing to invoices. – Checking that the ECL was applied to all relevant household receivable categories, including accrued income. – Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements. – We also considered whether there was any Management bias in how the assumptions and estimates had been derived. Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.
Accuracy of measured income accrual Management have recorded a measured income accrual of £7.6m (2021: £7.1m), (see note 3 of the financial statements for management's disclosures of the critical accounting policies, judgments and estimates), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit. This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the Company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: – Agreeing the last billed date against the last invoice billed on a customer level. – Performing a recalculation of the number of days since the last billed date to year-end. – Recalculating the daily average consumption rate based on the last three meter readings, comparing the recalculated average against the detailed listing. – Testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2022. Our results: We found Management's estimation of the measured income accrual to be acceptable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Our Consideration of Climate-Related Risks

As part of our audit, we have made enquiries of Management to understand its process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the newly-formed Environmental, Social and Governance (ESG) Committee. While Management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements, with the support of our climate change experts. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included, with involvement of our specialists: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£392,500 (2021: £392,500).
How we determined it	Approximately 1.7% of adjusted profit before tax for the year
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by shareholders in assessing the performance of the company and this benchmark was used in determining materiality for the 2021 audit. However, given the recent volatility in this benchmark (due to factors such as the increase in RPI-linked interest), in the interest of eliminating volatility and to preserve the link between materiality and the underlying performance and scale of the business, we have used our professional judgement, in moving to an adjusted profit before tax benchmark. Based on our qualitative and quantitative assessment of the results in the year and balance sheet position at year end, including discussion on the topic with the Audit Committee, which included representatives of the shareholders, for our 2022 audit our materiality is approximately 1.7% of adjusted profit before tax. This equates to the same materiality applied in our 2021 audit.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £294,000 (2021: £294,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £19,625 (2021: £19,625) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and reconciling these to Board approved budgets.
- Identifying the key assumptions applied, which we determined to be revenue, costs and capital expenditure. We evaluated these key assumptions by:
  - Revenue: Considering the feasibility of forecasted revenue to historical performance and allowed revenue under AMP 7.
  - Costs: Comparing the forecasted costs to historical actuals and made enquiries to understand the driver of any significant variations.
  - Capital expenditure: Considering the capital expenditure forecast by reference to the different projects in Management's plan, and also comparing the forecast to prior period expenditure.

Independent auditor's report continued

- Downside scenario: Assessing the severe but plausible downside assumptions to stress test the model and considering the impact on the liquidity headroom and forecast covenant compliance.
- Mitigating actions: Assessing the reasonableness of Management's planned or potential mitigating actions to reduce capital expenditure or other cash outflows based on historical execution and feasibility.

– Reviewing the debt agreements to confirm the terms and conditions, including the nature of and calculation of the covenants, and checking that the covenants were consistent with those used in Management's going concern assessment.
– Agreeing all borrowings as at 31 March 2022 to third-party confirmations and considering the terms and conditions and amounts available from committed facilities.
– Testing the mathematical accuracy of the covenant calculations based on the Company's forecast. This included checking that the covenant compliance remained throughout the assessment period after considering the mitigating actions under Management's control.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement
ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditor.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, and UK Corporation Tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as The Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of Management's controls to prevent and detect irregularities;

Independent auditor's report continued

- Challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors and accuracy of the measured income accrual, including the disclosure of such matters in the financial statements;
- Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.
- Incorporating elements of unpredictability into the audit procedures performed

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2020 to 31 March 2022.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London

8 July 2022

Strategic Report Governance **Financial Statements** Group Information

Profit and loss account for year ended 31 March

	Note	**2022 £'000**	2021 £'000
Revenue	5	**62,953**	65,819
Operating costs	6	**(56,607)**	(54,320)
Other operating income	7	**3,358**	2,202
Net impairment gains/(losses) on financial and contract assets	16	**449**	(2,589)
Operating Profit		**10,153**	11,112
Finance income	9	**368**	706
Finance costs	9	**(15,923)**	(7,950)
Finance costs – net		**(15,555)**	(7,244)
(Loss)/Profit before income tax		**(5,402)**	3,868
Income tax expense	10	**(11,935)**	(236)
(Loss)/profit for the year		**(17,337)**	3,632

Statement of comprehensive income for the year ended 31 March

	Note	**2022 £'000**	2021 £'000
(Loss)/profit for the year		**(17,337)**	3,632
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Actuarial gain/(loss) on pension scheme	20	**5,658**	(7,184)
Movement on deferred tax relating to pension scheme	19	**(983)**	1,365
Total comprehensive expense for the year		**(12,662)**	(2,187)

Balance Sheet as at 31 March

	Note	2022 £'000	2021 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**9,721**	7,204
Property, plant and equipment	12	**358,094**	346,407
Right-of-use assets	12	**623**	268
Pension asset	20	**26,265**	20,476
		397,790	377,442
Current Assets			
Inventories	14	**286**	226
Trade and other receivables	15	**25,184**	21,447
Contract assets		**5,594**	4,696
Cash and cash equivalents	25	**24,102**	25,601
		55,166	51,970
Total Assets		**452,956**	429,412
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(234,304)**	(212,232)
Lease liabilities	13	**(412)**	(192)
Provisions	19	**(54,543)**	(41,561)
Pension deficit	20	**(972)**	(1,006)
		(290,231)	(254,991)
Current Liabilities			
Trade and other payables	17	**(38,968)**	(31,030)
Contract liabilities		**(5,723)**	(9,306)
Lease liabilities	13	**(212)**	(85)
		(44,903)	(40,421)
Total Liabilities		**(335,134)**	(295,412)
Net Assets		**117,822**	134,000
EQUITY			
Called up share capital	21	**51,489**	51,489
Profit and loss account		**66,333**	82,511
Total Equity		**117,822**	134,000

The notes on pages 123 to 149 are an integral part of these financial statements.

The financial statements on pages 119 to 149 were approved by the Board of Directors on 8 July 2022 and signed on its behalf by

Paul Kerr
Chief Financial Officer

Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

Statement of Changes in Equity for the year ended 31 March 2022

	Note	Called up share capital £'000	Profit and Loss account £'000	**Total Equity £'000**
Balance at 1 April 2020		51,489	89,608	141,097
Profit for the year		–	3,632	3,632
Actuarial losses on pensions scheme	20	–	(7,184)	(7,184)
Movement on deferred tax relating to pensions scheme	19	–	1,365	1,365
Total Comprehensive expense for the year		**–**	**(2,187)**	**(2,187)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(4,910)	(4,910)
Transactions with owners recognised directly in equity		**–**	**(4,910)**	**(4,910)**
Balance at 31 March 2021		**51,489**	**82,511**	**134,000**
Loss for the year		–	(17,337)	(17,337)
Actuarial gains on pensions scheme	20	–	5,658	5,658
Movement on deferred tax relating to pension scheme	19	–	(983)	(983)
Total Comprehensive expense for the Year		**–**	**(12,662)**	**(12,662)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(3,516)	(3,516)
Transactions with owners recognised directly in equity		**–**	**(3,516)**	**(3,516)**
Balance at 31 March 2022		**51,489**	**66,333**	**117,822**

Cash Flow Statement

Year ended 31 March	2022 £'000	2021 £'000
(Loss)/Profit for the year	**(17,337)**	3,632
Adjustments for:		
Finance income	**(368)**	(706)
Finance costs	**15,923**	7,950
Proceeds from insurance claims	**(1,970)**	(1,675)
Depreciation of property, plant and equipment	**11,901**	10,877
Depreciation of right-of-use assets	**149**	50
Amortisation of intangible assets	**660**	363
Gain on disposal of property, plant and equipment	**(1,283)**	(527)
Loss on disposal of intangible assets	**76**	–
Decrease in inventories	**(59)**	82
Increase in trade and other receivables	**(4,868)**	(4,137)
Increase in trade and other payables	**1,254**	4,415
Increase in amounts due to related companies	**(451)**	902
Income tax expense	**11,935**	236
Interest paid	**(5,846)**	(5,182)
Income taxes paid	**-**	(1,332)
Net cash generated by operating activities	**9,716**	14,948
Investing activities		
Proceeds from insurance claims	**2,225**	1,675
Purchase of property, plant and equipment	**(23,630)**	(22,547)
Purchase of right-of-use assets	**(504)**	(50)
Purchase of intangible assets	**(2,482)**	(3,405)
Proceeds from sale of property, plant and equipment	**1,324**	554
Interest received	**368**	706
Net cash from investing activities	**(22,699)**	(23,067)
Financing activities		
Net proceeds of loan	**15,000**	13,000
Dividends paid	**(3,516)**	(4,910)
Net cash from Financing activities	**11,484**	8,090
Net (decrease)/increase in cash and cash equivalents	**(1,499)**	29
Net cash and cash equivalents at the beginning of the year	**25,601**	25,630
Net cash and cash equivalents at the end of the year	**24,102**	25,601

Notes to the Financial Statements

1. General information

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its license and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited Company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ, United Kingdom.

According to the licence conditions under which the Company operates as a water only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

2. Significant Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS);
  - 38B-D (additional comparative information);
  - 40A (requirements for a third balance sheet);
  - 111 (statement of cash flows information); and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements);
  - 113(a) (separate sources of revenue);
  - 115 (disaggregated of revenue);
  - 118 (explanation of changes in contract assets and liabilities);
  - 120 to 121 (Transaction price allocated to the remaining performance obligations);
  - 129 (practical expedients)

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.1.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create volatility in demand for water. The Company's forecasts and projections, taking account of severe but plausible possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have considered the financial position of the Company and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For going concern the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements. The impact of COVID-19 is still prevalent in lower demand from non-household customers, as well as increased costs through supply chain pressures, despite these challenges the company still remains financially resilient and has enough headroom to be able to meet its cash and debt covenant requirements for at least the next 12 months from the date of approval of these financial statements. Further details of consideration outlined in page 92.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 that have a material impact on the Company's financial statements.

2.2 Consolidation

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly owned subsidiary of SESW Holding Company Ltd, wholly owned by East Surrey Holdings Ltd, and of its ultimate parent, Sumisho Osaka Gas Water UK Limited. It will be included in the consolidated financial statements of East Surrey Holdings Ltd which will be publicly available from their registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It will also be included in the consolidated financial statements of Sumisho Osaka Gas Water UK Limited which will be publicly available from their registered office, Vinters Place, 68 Upper Thames Street, London, EC4V 3BJ.

2.3. Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 Property, plant and equipment

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant & equipment:

- **Land**
- **Collections reservoir**

This is the Company's primary reservoir for collecting fresh water.

- **Buildings, including service reservoirs and boreholes**

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

- **Mains network**

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

The relining of a main is the work needed to keep a main in good condition and is maintenance so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

- **Plant and machinery (heavy)**

Heavy plant and machinery consist of heavy plant used on the course of construction such as excavators, as well as water treatment equipment and water pumps.

– **Motor vehicles**

This balance includes those motor vehicles such as cars and vans.

– **Sundry plant**

Sundry plant consists of small tools used in construction as well as the companies IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised as property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the profit and loss account.

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in 'IAS23 – Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

– **The project needs to go on for longer than a year**

Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

– **The project must be more than £0.3m of a £30m capital program per year**

For the asset to be significant enough to be considered a qualifying asset it must cost at least £0.3m (c.1% of our capital program). Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were drawdown facilities not available.

– **Ongoing programs in the ordinary course of business are excluded (i.e., metering and directly managed spend such as network maintenance activity)**

Much of the Company's ongoing capital investment programme qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

– **Must not include Developer Services capital expenditure as that is separately funded.**

As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
– Land	**n/a**
– Collections reservoirs	**140 to 150**
– Buildings including boreholes and service reservoirs	**5-100**
– Mains network	**100**
– Plant and machinery (heavy)	**3-100**
– Motor vehicles	**5**
– Sundry plant	**3-50**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.5 Intangible assets and goodwill

2.5.1 Software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between five to fifteen years.

2.5.2 Internally generated intangible assets – Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the CGU that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 Impairment of goodwill

The recoverable amount of the CGU has been calculated using the fair value less disposal cost (FVLDC) method, using a discounted cashflow calculation based on the most recent financial projections available for the business. As customary practice for the UK water industry, Management has used a forecast period of twenty-five years, in line with the notice period a water company has to be given before it can stop providing the regulated service. An exit multiple is then applied to the regulatory capital value at that time to determine the terminal value. Both elements are then discounted based on a pre-tax nominal rate to derive the estimated fair value, from which an estimated disposal cost is deducted to derive fair value less disposal cost.

As a regulated water company, the revenues and costs are significantly influenced by the regulatory settlement for each AMP period. Key assumptions for AMP 7 are consistent with Ofwat's PR19 Final determination.

Cash flows beyond the end of the current AMP period are extrapolated using an assumed growth rate in the Group's regulatory capital base.

Key Assumptions	2022	2021
Exit RCV multiples	**1.15**	1.15
Discount rate	**4.7%**	4.9%
Inflation RPI	**3%**	3%
Inflation CPI	**2%**	2%

These cashflows have included estimated costs of meeting climate change challenges, such as additional capex required to meet net zero carbon targets and related asset enhancements which will be considered in AMP 8 for pricing determination.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 Financial assets

Financial assets can be classified as all being held at:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e., the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 Financial assets at amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

2.9 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted, or the cost of recovery is considered to be disproportionate to the value of the debt.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The cost are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Management recognises a provision for obsolete stock as follows:

– Between one and two years – 50%

– Two years and older – 100%

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore recognises them initially as current assets at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets (standard payment terms are 30 days, so this is not applicable in the ordinary course of business). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers but not yet invoiced have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £5.6m (2021: £4.7m) as a result of unbilled measured household income.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short term highly liquid investments with maturities of less than three months, and bank overdrafts.

Included in the cash and cash equivalents is a restricted cash balance (note 25) owned by the Company relating to the secured index linked bond.

2.13 Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

During the year, the company agreed an amendment to certain terms within its £100m collateral bond deed. Consistent with IFRS 9, where there is a modification of debt, Management performs an assessment to determine whether this is a substantial or non-substantial modification. This is determined by reference to the "10 per cent test" (i.e. whether the present value of new cash flows differ by more than 10% to the original present value of cash flows) as well as qualitative factors.

The modification in the current year was deemed to be non-substantial. Therefore "modification accounting" treatment has been followed, with the liability restated to present value using the original effective interest rate. The difference between the old and new liability has been recognized as a charge to the P&L. The liability continues to be held at amortised cost.

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 Provisions

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

- The Company has a present legal or constructive obligation as a result of past events
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- The amount has been reliably estimated.

No such provision was required in FY22 or FY21.

Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company's activities are described in detail below.

The core principles of IFRS 15 'Revenue from Contracts with Customers' are:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Company considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (note 3.5).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed 6 monthly in arrears (see note 3.1).

The Company has applied this framework to its revenue streams as follows:

2.19.1 Water revenue (appointed income) – household and wholesale revenue

The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company's customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers consumption of water.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (measured supply) or not (unmeasured supply). In certain specific circumstances, usually when the customer has requested a water meter, but we are physically unable to fit one to the customer's property, a customer may be placed on an assessed tariff (unmeasured supply). The process for revenue recognition for customers on an assessed tariff is the same as that for unmeasured customers.

For unmeasured supply of water services, the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.1). Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 Empty properties – household revenue

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

2.19.3 Developer services (appointed income) – other water revenue

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of developer services charges are available on the Company's website and described below:

2.19.3.1 Network extensions

Network extensions relate to the Company laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

2.19.3.2 Service connections

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see note 2.24) for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the tariff, with the Company's performance commitment being to connect the property to the Company's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Company's network and revenue is recognised when this connection is made.

2.19.3.3 Diversions

Diversions are when the Company moves our assets at the request of a developer or another party. These are contractual arrangements with the Company's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.19.3.4 Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network, based on a tariff. The charges are designed to cover the cost of network reinforcement work to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Company considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for the infrastructure charge is between the Company and the developer who is not necessarily the party that will ultimately benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Company expects to receive based on the tariff rate.

It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when all the new connections are made and so revenue is recognised at that point.

2.19.4 Commission income – non-appointed income

Commission revenue from another regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when the Company collects monies from customers on behalf of the other regulated companies. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other Company. The commission is paid based on the amount of debt collected and then transferred, with the Company recognising the revenue when the performance obligation is satisfied (the cash being transferred).

2.19.5 Garage revenue – non-appointed income

The Company receives a revenue for the servicing, repair, and MOT facilities to third parties by the Company's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

2.20 Interest income/expense

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 Leases

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of 5 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g., term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

2.24 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

Contract liabilities have decreased to £5.7m (2021: £9.3m) mainly due to reclassifcation of money received in advance from customers that will be passed to Thames Water upon billing.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £9.3m as all the money received in advance at 31 March 2021 has been billed in the current financial year.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.25 Insurance receipts

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cash flow management consider the nature of the transaction:

- Insurance receipts relating to damaged PPE represent 'in substance' a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.26 Managing Risk

2.26.1 Credit Risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meet its obligations.

2.26.2 Interest Risk

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.

The £100.0m long-dated inflation linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company.

The bond was issued on 21 March 2001, carrying a AAA rating, and is secured upon the shares of Sutton and East Surrey Water PLC. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.

Unamortised issue costs of £4.0m (2021: £4.4m) are netted against the carrying value of the bond and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate.

The Company also has access to borrowings in the form of a current account overdraft and access to two revolving credit facilities (RCF). Overdraft interest rates are at a variable rate above base rate, and RCF interest is at a margin above SONIA.

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the bond at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

The analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for the prior year.

As at year ended 31 March	2022 £'000	2021 £'000
Equity		
Increase	**(473)**	(1,139)
Decrease	**473**	1,139
Profit before tax		
Increase	**(473)**	(1,139)
Decrease	**473**	1,139

2.26.4 Liquidity Risk

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below;

As at year ended 31 March	2022 £'000	2021 £'000
Maturities		
Between one and two years	**59,000**	44,000
Between two and five years	**435**	192
More than five years	**175,304**	168,232
	234,739	212,424

The facilities available at the balance sheet date are unsecured. Current unutilised facilities available to the Company are set out below;

As at year ended 31 March	2022 £'000	2021 £'000
Expiring		
In less than one year	**1,000**	1,000
Between one and two years	**16,000**	6,000
Total	**17,000**	7,000

2.27 The impact of climate change

The water industry plays a key role on the impact of climate change and management of climate related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the good will impairment system. The financial reporting impact from the physical and transitional risks of climate change can be shown on page 52 to 53.

3. Critical judgements and estimates in applying the entity's accounting policies

The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required in the preparation of these financial statements are:

3.1 Estimate – unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £380k (2021: £363k).

3.2 Judgement – Defined benefit pension scheme

The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in Note 20.

3.3 Estimate – Provision for doubtful debt

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for.

The ongoing COVID-19 pandemic and worsening economic climate has continued to impact on the ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. In the final quarter of the year, the company restarted its debt collection activities, (which had been paused during the pandemic), with additional collection support provided by a new 3rd party debt collection agency. The resulting increased collection performance has been judged to offset the additional risk, and as such no changes to the bad debt provision has been made from the prior year.

Notes to the Financial Statements continued

3. Critical judgements and estimates in applying the entity's accounting policies continued

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects.

Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least 3 years. This resulted in derecognising £0.7m of revenue in FY22, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.4m and £0.3m respectively.

4. Segmental information

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey West Sussex West Kent and South London). Management considers the UK to be the geographical location of business.

5. Revenue

Year ended 31 March	2022 £'000	2021 £'000
Unmeasured water revenue (household)	**20,562**	21,551
Measured water revenue (household)	**28,461**	31,058
Total household revenue	**49,023**	52,609
Wholesale revenue from retailers (non-household)	**7,726**	7,360
Other water revenue	**817**	742
Non-water revenue	**3,090**	2,952
Non-appointed income	**2,297**	2,156
Total revenue	**62,953**	65,819

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale) customers.

During the year ended 31/3/22 the ratio and volume of water sold to household and non-household customers continued to be impacted by the COVID-19 pandemic. Consumption has reduced for household customers as restrictions ease but has not reduced to pre-pandemic consumption levels. Other industries which would drive sales of Wholesale (non-household) Revenue, such as hospitality and corporate buildings continue to not have full occupancy and therefore volumes sold remain lower than pre-pandemic levels. This has meant in the year we have seen a reduction in measured household water revenue against prior year and non-household water revenue remaining at a similar level. Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue. The fall in revenue is driven by households slowly moving from being on an unmeasured tariff to having a water meter.

6. Operating Costs

Operating profit is stated after charging:

Year ended 31 March	Note	2022 £'000	2021 £'000
Wages and Salaries		**11,960**	11,284
Social Security Costs		**1,504**	1,443
Other Pension Costs	20	**1,905**	1,694
Staff costs		**15,369**	14,421
Power		**6,617**	7,400
Raw materials and consumables		**3,285**	2,886
Rates		**3,467**	3,397
Subcontractors		**6,025**	5,472
Insurance		**987**	924
Other operating costs		**6,080**	6,361
Depreciation charge on property, plant and equipment	12	**11,901**	10,877
Depreciation of right-of-use assets	12	**149**	50
Amortisation charge on intangible assets	11	**660**	363
Legal and professional fees (excluding auditor's fees)		**1,639**	1,848
Fees payable to the Company's auditor for the audit of annual financial statements		**309**	250
Fees payable to the Company's auditor and associates for other services:			
– Audit of regulatory financial statements		**50**	48
– Other assurance services		**69**	23
Operating costs		**56,607**	54,320

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £1,915,985 (2021: £2,125,580) were capitalised to fixed assets.

Net Operating Costs can be analysed as

	2022 £'000	2021 £'000
Cost of sales	**40,623**	36,549
Administration expenses	**15,984**	17,771
	56,607	54,320

7. Other Operating Income

	2022 £'000	2021 £'000
Proceeds from insurance claim	**1,970**	1,675
Other operating Income	**105**	–
Profit on sale of fixed assets	**1,283**	527
Other Operating Income	**3,358**	2,202

During the year the Company received £2.0m (2021: £1.7m) in insurance proceeds, relating to damage at one of its water treatment facilities, which occurred in 2017 and £1.2m from the sale of property (2021: nil).

Notes to the Financial Statements continued

8. Employees and Directors

The average number of employees in the year was:

Year ended 31 March	2022 number	2021 number
Operations	**159**	152
Retail	**87**	88
Support	**95**	85
Other	**1**	1
Total	**342**	326

Director Emoluments

Directors' emoluments for the year were as follows:

	2022 £ '000	2021 £ '000
Aggregate Emoluments	**955**	954
Aggregate amounts receivable under long-term incentive schemes	**84**	79

Highest paid director

The highest paid director's emoluments were as follows:

Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**415**	396

9. Interest income and expense

Year ended 31 March	2022 £'000	2021 £'000
Finance income		
Expected return on pension scheme assets	**2,227**	2,772
Interest paid on post retirement liabilities	**(1,862)**	(2,164)
Other interest receivable	**3**	98
Total Finance Income	**368**	706
Finance expense		
Interest on Index Linked Bond	**5,005**	4,700
Indexation of Bond	**6,628**	2,756
Bond Fee amortisation	**444**	435
Other Interest expenses	**3,846**	59
Total Finance Expenses	**15,923**	7,950
Net finance cost	**15,555**	7,244

During the year the Company incurred £16.0m of finance costs (2021: £8.0m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £3.9m increase in indexation costs due to a rise in the current year of the RPI rate. In July 2020, the annual inflation change was 1.62%, in July 2021 it increased to 3.84%. Therefore, inflation increased by 137%, the indexation charge increased by 140%.

Other interest expenses includes a one off charge of £3.5m in financing costs relating to the renegotiation of the terms of the long dated index linked bond which was originally executed in 2001.

10. Income Tax Expense

Year ended 31 March	Note	2022 £'000	2021 £'000
Tax charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**–**	–
Adjustments in respect of prior periods		**(64)**	(97)
Total current tax		**(64)**	(97)
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**31**	55
Origination and reversal of temporary differences – other		**(1,017)**	282
Impact of change in tax rate		**13,182**	–
Adjustments in respect of previous years		**(197)**	(4)
Total deferred tax		**11,999**	333
Income tax expense		**11,935**	236
Tax expense included in other comprehensive income/(expense):			
Deferred tax:			
Movement in relation to pension scheme	19	**(983)**	1,365
Total tax (expense)/income included in other comprehensive income		**(983)**	1,365

Tax expense for the year is higher (2021: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022 £'000	2021 £'000
(Loss)/profit before taxation	**(5,402)**	3,868
(Loss)/profit multiplied by the standard rate of tax in the UK of 19% (2021: 19%)	**(1,026)**	735
Effects of:		
Expenses not deductible for tax purposes	**41**	(485)
Income not taxable	**(374)**	(318)
Remeasurement of deferred tax – change in UK tax rate	**13,182**	–
Adjustments to tax charge in respect of previous years	**(262)**	(101)
Rolled over gains	**374**	405
Tax charge	**11,935**	236

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes have been substantively enacted before the balance sheet date. As a result, the deferred tax balances have been remeasured at 25% which is the tax rate that the temporary differences are expected to reverse at. This has resulted in a £13.2m tax debit to the income statement.

Notes to the Financial Statements continued

11. Intangible Assets

	Goodwill £'000	Software £'000	Work in Progress £'000	**Total – Software and Work in Progress £'000**
Cost:				
At 1 April 2021	19,454	6,804	6,162	**12,966**
Additions	–	–	3,253	**3,253**
Transfer	–	8,011	(8,011)	**-**
Disposals	–	(2,836)	–	**(2,836)**
As at 31 March 2022:	**19,454**	**11,979**	**1,404**	**13,383**
Accumulated amortisation and impairment				
At 1 April 2021	16,367	5,762	–	**5,762**
Amortisation	–	660	–	**660**
Disposals	–	(2,760)	–	**(2,760)**
As at 31 March 2022	**16,367**	**3,662**	**-**	**3,662**
Net book Value 31 March 2022	**3,087**	**8,317**	**1,404**	**9,721**
Net book Value 31 March 2021	3,087	1,042	6,162	**7,204**

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £505k (2021: £363k) and has a remaining amortisation period of 7 years (2021: nil) on a straight line basis. Aptumo our new billing system went live in October 21 and is used for all customer service operations and billing management. The asset is carried at £6.5m (2021: nil) and has a remaining amortisation period of 15 years (2021: nil) on a straight line basis.

Intangible assets amortisation is recorded in operating expenses in the profit and loss.

12. Property Plant and Equipment & Right-of-use Assets

	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes & service reservoirs) £'000	Mains network £'000	Plant and Machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	**Total £'000**	Right-of-use assets £'000	**Total £'000**
Cost:											
At 1 April 2021	5,087	2,533	131,435	255,383	135,402	3,780	6,844	29,451	**569,915**	345	**345**
Additions	–	–	–	–	–	–	–	23,630	**23,630**	504	**504**
Transfer	–	–	4,835	5,163	20,515	201	743	(31,457)	**-**	–	**-**
Disposals	(13)	–	–	–	(10)	(427)	(237)	–	**(687)**	–	**-**
As at 31 March 2022	**5,074**	**2,533**	**136,270**	**260,546**	**155,907**	**3,554**	**7,350**	**21,624**	**592,858**	**849**	**849**
Accumulated amortisation and impairment											
At 1 April 2021	–	442	39,601	96,080	79,588	2,911	4,886	–	**223,508**	77	**77**
Depreciation charge	–	20	2,633	1,902	6,450	334	562	–	**11,901**	149	**149**
Disposals	–	–	–	–	–	(408)	(237)	–	**(645)**	–	**-**
As at 31 March 2022	**-**	**462**	**42,234**	**97,982**	**86,038**	**2,837**	**5,211**	**-**	**234,764**	**226**	**226**
Net book Value 31 March 2022	**5,074**	**2,071**	**94,036**	**162,564**	**69,869**	**717**	**2,139**	**21,624**	**358,094**	**623**	**623**
Net book Value 31 March 2021	5,087	2,091	91,834	159,303	55,814	869	1,958	29,451	**346,407**	268	**268**

Land comprises freehold land at £5,033k (2021: £5,046k) and long leasehold land at £41k (£2021: £41k).

13. Leases liabilities

The Company has lease contracts for Company vehicles the balances of which are included under 'right-of-use assets' on note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

The balance sheet shows the following amounts relating to leases:

As at 31 March	2022 £'000	2021 £'000
Right-of-use assets		
Vehicles	**623**	268
Total	**623**	268
Lease Liabilities		
Current	**212**	85
Non-Current	**412**	192
Total	**624**	277

Additions to the right-of-use assets during the financial year were £504k (2021: £143k).

Amounts recognised in profit and loss:

The profit and loss account shows the following amounts relating to leases:

Year ended 31 March	2022 £'000	2021 £'000
Depreciation charge of right-of-use assets:		
Vehicles	**149**	50
Interest expense (included in finance cost):		
Vehicles	**34**	4
Total	**183**	54

Other lease information

Year ended 31 March	2022 £'000	2021 £'000
The total cash outflow for leases	**164**	50

14. Inventories

As at 31 March	2022 £'000	2021 £'000
Raw materials and consumables	**286**	226
Total	**286**	226

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

15. Trade and other receivables

As at 31 March	Note	2022 £'000	2021 £'000
Current:			
Gross trade receivables		**26,928**	24,923
Expected credit loss	16	**(7,855)**	(8,304)
Net trade receivables		**19,073**	16,619
Amounts due from group undertakings		**658**	536
Other receivables		**2,240**	1,441
Current tax asset		**1,602**	1,430
Prepayments		**1,361**	1,334
Group relief receivable		**111**	–
Other tax and social security		**139**	87
		25,184	21,447

Notes to the Financial Statements continued

16. Expected Credit losses on financial assets

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100 per cent against all receivables over 3 years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2022 £'000	2021 £'000
At 1 April	**8,304**	5,715
(Credit)/charge for bad and doubtful debts	**(449)**	2,589
At 31 March		
Total	**7,855**	8,304

Ageing debt profile and credit loss provisions:

31 March 2022	< 6m £'000	6m-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	Total £'000
Expected credit loss – Household Metered	16.4%	43.2%	64.7%	82.1%	100.0%	
Outstanding customer debt*	3,342	1,446	1,592	851	1,460	**8,691**
Provision at expected credit loss	(549)	(624)	(1,031)	(699)	(1,460)	**(4,363)**
Specific provisions against contract assets	(91)	–	–	214	119	**242**
Loss allowance	(640)	(624)	(1,031)	(485)	(1,341)	**(4,121)**
Net outstanding customer debt	2,702	822	561	366	119	**4,570**
Expected credit loss – Household Non Metered	1.9%	1.9%	66.0%	80.9%	100.0%	
Outstanding customer debt*	511	1,644	908	582	2,538	**6,183**
Provision at expected credit loss	(10)	(32)	(599)	(471)	(2,538)	**(3,650)**
Specific provisions against contract assets	(169)	–	–	195	108	**134**
Loss allowance	(179)	(32)	(599)	(276)	(2,430)	**(3,516)**
Net outstanding customer debt	332	1,612	309	306	108	**2,667**
Expected credit loss – Other Receivables	0.3%	9.4%	12.6%	37.2%	100.0%	
Carrying amount of trade receivable*	924	150	64	53	173	**1,364**
Provision at expected credit loss	(3)	(14)	(8)	(20)	(173)	**(218)**
Net outstanding customer debt	921	136	56	33	–	**1,146**
Total loss allowance	**(822)**	**(670)**	**(1,638)**	**(781)**	**(3,944)**	**(7,855)**
Net outstanding customer debt*	**3,955**	**2,570**	**926**	**705**	**227**	**8,383**

* To calculate the expected credit loss, the gross debt per note 15, £26.9m (2021: £24.9.5m) is adjusted for the calculation. Such adjustments include contract assets which are subject to an expected credit loss and for balances which do not factor in the calculation at all, such as receivables held on behalf of other utility companies where the Company collects debt on their behalf (Note 2.19.4).

If cash collections improved by 5% the bad debt provision driven by the ECL would reduce by £197k, if cash collections worsened by 5% the bad debt provision would need to be increased by £197k. For both scenarios this is an increase or decrease of £55k for unmeasured and £142k for measured debt.

17. Trade and other payables

As at 31 March	2022 £'000	2021 £'000
Trade payables	**1,924**	1,630
Amounts owed to group undertakings	**1,181**	1,344
Other creditors	**24,936**	16,974
Deposits from developers	**344**	322
Accruals	**10,583**	10,705
Current tax and group relief payable	**–**	55
Total Current Liabilities	**38,968**	31,030

The other creditors balance includes the cash collected on behalf of Thames Water for waste services and the provision for the commercial renegotiation of the index linked £100m bond.

18. Borrowings

As at 31 March	2022 £'000	2021 £'000
Non-Current:		
2.874% secured index-linked bond 2027-2031	**175,202**	168,130
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long term bank loans	**59,000**	44,000
Total Non-Current Liabilities	**234,304**	212,232

Amounts falling due after more than 5 years	2022 £'000	2021 £'000
Bank loans and borrowings	**175,304**	168,232
Total Non-Current Liabilities	**175,304**	168,232

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

The long dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI.

The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company. The bond was issues on 21 March 2001 and is secured upon the shares of the Company. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

The bond and debentures are at fixed rates of interest. Borrowings made under the RCF facility will be at a variable rate with a margin above SONIA.

On 16 March 2022, the Company secured an additional 3 year RCF facility totalling £25m from Royal Bank of Scotland which hold a variable rate of interest at a margin above SONIA. On 29 March 2022, £9m was drawndown to meet the financial covenants at the year end date.

Loan Covenants

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

1. As per the agreement of £100m index linked bond, the issuer shall maintain at each calculation date 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an interest cover ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; an adjusted interest cover ratio including indexation of 1.0:1 and a Regulated Asset Ratio of less than or equal to 0.80.

The Company has complied with these covenants throughout the current and prior reporting period.

Fair values

The fair values together with their carrying amounts are shown in the balance as follows. The fair value is derived from taking the current trading balance of the bond at the balance sheet date from Bloomberg to represent a current value of the bond if it were to be traded.

	2022		2021	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
2.874% secured index-linked bond 2027-2031	**175,202**	**241,379**	168,130	230,808

Notes to the Financial Statements continued

19. Provisions

	Corporation tax £'000	Total £'000
At 1 April 2021	–	–
Current tax asset	1,601	1,601
At 31 March 2022	1,601	1,601

	Deferred tax £'000	Total £'000
At 1 April 2021	41,561	41,561
Adjustment in respect of prior years	(197)	(197)
Deferred tax charge to profit and loss for the period	12,196	12,196
Charge to the statement of other comprehensive income	983	983
At 31 March 2022	54,543	54,543

Deferred tax

As at 31 March	2022 £'000	2021 £'000
Current deferred tax assets	–	–
	–	–
Carrying amount at year end	–	–
Non-current deferred tax assets	–	–
Non-current deferred tax liabilities	54,543	41,561
Carrying amount at year end	54,543	41,561
Total carrying amount at year end	54,543	41,561

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other £'000	Total £'000
At 1 April 2020	37,622	4,971	0	42,593
Charged to the profit and loss	280	93	(40)	333
Charged directly to other comprehensive income	–	(1,365)	–	(1,365)
At 31 March 2021	37,902	3,699	(40)	41,561
Charged/(credited) to the profit and loss	10,501	1,640	(142)	11,999
Credited directly to other comprehensive income	–	983	–	983
At 31 March 2022	48,403	6,322	(182)	54,543

20. Post employment benefits

The Company participates in both a defined contribution scheme 'Group Personal Pension Plan' (GPPP) which is available for all employees and a defined benefit scheme 'the Water Companies Pension Scheme' (WCPS) for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 Defined Benefit scheme

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the Company and the board of trustees of the fund.

The Company's own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g., liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in Bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

Guaranteed Minimum Pension (GMP)

On 26 October 2018 a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2021 £425k); this was consulted with the scheme actuary.

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2020 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

Deficit contributions

The entity didn't make any deficit contributions as the scheme is in surplus.

Notes to the Financial Statements continued

20. Post employment benefits continued

As at 31 March	2022	2021
Retail price inflation	**4.00%**	3.50%
Consumer price inflation	**3.50%**	3.00%
Discount rate	**2.70%**	1.90%
Life expectancy of male aged 60 in 2022	**26.4**	26.7
Life expectancy of a male aged 60 in 2047	**28.3**	28.6
Weighted average duration	**14.0**	15.0

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Carrying Amount £'000
At 1 April 2021	119,642	(99,166)	20,476
Interest on benefit obligations	–	(1,843)	(1,843)
Actuarial gains/(losses) due to:			
– changes in financial assumptions	–	5,356	5,356
– changes in demographic assumptions	–	665	665
– experience adjustments on obligation	–	(1,207)	(1,207)
Past service	–	–	–
Benefits paid	(4,663)	4,663	–
Interest on section assets	2,227	–	2,227
Actual return less interest on plan assets	835	–	835
Expenses	(244)	–	(244)
At 31 March 2022	117,797	(91,532)	**26,265**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is

As at 31 March	2022 £'000	2021 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	**1,100**	1,300
Change in inflation rate (-0.1%)	**(1,100)**	(1,300)
Change in discount rate (-0.1%)	**(1,300)**	(1,500)
Change in discount rate (-0.1%)	**1,400**	1,600
Change in life expectancy (+1 year)	**4,600**	4,700
Change in life expectancy (-1 year)	**(4,600)**	(4,700)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

Total cost recognised as an expense in the Profit and Loss

Year ended 31 March	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total	2021 £'000 WCPS	2021 £'000 Unfunded	2021 £'000 Total
Employer's part of current service cost						
Section expenses	(244)	–	**(244)**	(335)	–	**(335)**
Past service cost	–	–	**–**	(25)	–	**(25)**
Net interest credit/(charge)	384	(19)	**365**	630	(22)	**608**
Net credit/(expense) recognised in profit and loss account for pensions schemes	140	(19)	**121**	270	(22)	**248**

Total cost recognised as an expense in the Other Comprehensive Income

Year ended 31 March	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total	2021 £'000 WCPS	2021 £'000 Unfunded	2021 £'000 Total
Net actuarial gains/(losses) in the year due to						
Changes in financial assumptions	5,356	33	**5,389**	(14,247)	(153)	**(14,400)**
Changes in demographic assumptions	665	9	**674**	6,412	107	**6,519**
Experience adjustments on benefit obligations	(1,207)	(33)	**(1,240)**	2,054	12	**2,066**
Actual gain/(loss) on Section assets relative to interest on Section assets	835	–	**835**	(1,369)	–	**(1,369)**
Gain/(loss) to recognise outside profit and loss in other comprehensive income	5,649	9	**5,658**	(7,150)	(34)	**(7,184)**

Changes in net liabilities recognised in the balance sheet

	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total	2021 £'000 WCPS	2021 £'000 Unfunded	2021 £'000 Total
Balance sheet asset/(liability) at 1 April 2021	20,476	(1,006)	**19,470**	27,356	(994)	**26,362**
Amount recognised in profit and loss	140	(19)	**121**	270	(22)	**248**
Amount recognised in other comprehensive income	5,649	9	**5,658**	(7,150)	(34)	**(7,184)**
Company contributions paid	–	44	**44**	–	44	**44**
Balance sheet asset/(liability) at 31 March 2022	26,265	(972)	**25,293**	20,476	(1,006)	**19,470**

Fair value of plan assets

As at 31 March	2022 £'000	2021 £'000
Liability driven investments	**28,220**	93,837
Liquidity funds	**14,208**	–
BMO Global Absolute Return Bond Fund	**24,317**	25,243
Buy and maintain credit	**50,450**	–
Cash	**602**	562
Total	**117,797**	119,642

The majority of the Section assets are held within instruments with quoted market prices in active market. The Section does not invest in property occupied by the Company or in the financial securities issued by the Company.

20.2 Defined Contribution Scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Year ended 31 March	2022 £'000	2021 £'000
Current year contributions*	**1,905**	1,669

* Charge in the profit and loss account per note 6 is £1,905k (£2021: £1,694k) which includes Nil charge (2021: £25k charge) for GMP uplift regarding the defined benefit plan.

21. Called up Share capital

Ordinary shares of 10p each

Allotted and fully paid

As at 31 March	2022 £'000	2021 £'000
514,894,370 (2021:514,894,370) ordinary shares of £0.10 each	**51,489**	51,489

All shares rank pari passu in all respects.

Notes to the Financial Statements continued

22. Dividends

Dividends paid to immediate parent Company

As at 31 March	2022 £'000	2021 £'000
Ordinary dividend paid in June	**1,742**	3,008
Ordinary dividend paid in November	**1,774**	–
Ordinary dividend paid in February	**–**	1,902
Total Dividends paid	**3,516**	4,910

Dividends can be classified as follows:

As at 31 March	2022 £'000	2021 £'000
Final Dividend for FY20	**–**	3,008
Interim Dividend for FY21	**–**	1,902
Final Dividend for FY21	**1,742**	–
Interim Dividend for FY22	**1,774**	–
Total Dividends paid	**3,516**	4,910

23. Commitments

The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements

Year ended 31 March	2022 £'000	2021 £'000
Contracted capital commitments	**10,400**	7,800

24. Transactions with related parties

Company had the following transactions with related parties

Year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2022 £'000	2021 £'000
Advanced Minerals Ltd	80% owned group Company	Income	Sale of water treatment by-products and management charges	**33**	31
Advanced Minerals Ltd	80% owned group Company	(Expenditure)	Costs incurred for disposal of certain by products	**(29)**	(32)
Total				**4**	(1)

Company had the following balances with related parties

Year ended 31 March

Related party	Relationship	Asset/(liability)	Description	2022 £'000	2021 £'000
Advanced Minerals Ltd	80% owned group Company	Asset	Receivables for sales and management recharges	**–**	221
Advanced Minerals Ltd	80% owned group Company	(Liability)	Purchase ledger position from trade	**–**	–
Total				**–**	221

25. Cash and cash equivalents

Within liquid resources there is £5.8m (2021 £:5.7m) of restricted cash relating to the secured index linked bond.

26. Events after the reporting period

On 26 May 2022 a dividend of £1.94m was declared in respect of FY22 and paid up to the immediate parent Company on 31 May 2022.

27. Controlling parties

The Company is a wholly owned subsidiary of UK SESW Holding Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent Company and the largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Ltd and the consolidated financial statements are available at Vintners' Place, 68 Upper Thames Street, London EC4V 3BJ. The intermediate parent Company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited is available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

Glossary

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

Notes

Consultancy, design and production
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SES Water is a trading name of
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