# 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 harness the potential of water to enhance nature and improve lives 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 77 to 80**

## 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 79**

## 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 78 to 81**

## 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 **pages 90 to 94**

# 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 95 to 109**

# 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.
- 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 **pages 87 to 89**

## Board of Directors

# Our Board of Directors

### Chair

**Dave Shemmans**
Chair, non-executive

#### Committee membership

HSW N G

#### 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.

### Executive directors

**Ian Cain**
Chief Executive Officer

#### Committee membership

ES G HSW N

#### 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

ES G

#### 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 and is a member of Board member of UKWIR.

### Independent non-executive directors

**Rebecca Wiles**
Non-executive director

#### Committee membership

A N R ES

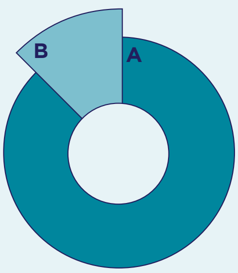
#### Skills and experience

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



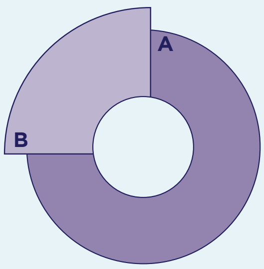
## Board composition

as of 31 March 2023




#### Gender split of directors

| | |
|---|---|
| **A** Men | 7 |
| **B** Women | 1 |




#### Directors' nationalities

| | |
|---|---|
| **A** British | 6 |
| **B** Japanese | 2 |

## Independent non-executive directors

### Murray Legg
Senior non-executive director

**Committee membership**

A ES G N R

**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**

R A G N

**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 Global ESG Vice President of Coca-Cola. Jon joined the Board on 1 March 2016.

## Shareholder-nominated non-executive directors

### Ken Kageyama
Non-executive director

**Committee membership**

G

**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**

ES G

**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.



## Length of tenure of non-executive directors

| <3 years | 3-9 years | >9 years |
|---|---|---|
| 1 | 3 | 0 |
| Rebecca Wiles | Murray Legg<br>Jon Woods<br>Dave Shemmans | |

## Committee membership key

- Committee chair
- A Audit
- ES Energy Strategy
- G Governance
- HSW Health, Safety and Wellbeing
- N Nomination
- R Remuneration

## Corporate governance

# 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 UK Corporate Governance 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 73.

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 7.

### 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 when considered appropriate to enable this review. The progress on the actions arising from this year's Board effectiveness review is provided on page 81.

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. Independent non-executive directors continue to form the largest single group on the Board.

## 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 Customer; Energy; Pensions; Governance; Health, Safety and Wellbeing, Environmental, Social and Governance (ESG) and Financing committees which have independent non-executive director attendance and chairs. The Board also 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 76.

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 73.

### 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 feedback from Ofwat in this area. The Board's assessment of the performance against these Ofwat leadership objectives is provided in the Annual Performance Report 2023.

### 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.

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.

# Corporate governance continued

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 chairship 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 a 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 Chair and the Chief Executive Officer:

- The division of responsibilities between the Chair 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 advisors
- 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 2022/23, this has included shareholders' views on the strategic review of the business currently underway.

## 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 engagement with the 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 are detailed in the Nomination Committee report on pages 87 to 89.

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 2022/23, 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 pages 74 and 75. 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.

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 was not considered independent when appointed to Chair of the Board on 24 March 2022.

The Chair 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 employees. 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.

# **Corporate governance** continued

## 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 s.172 of the Companies Act 2006.

## Engagement in action

There have been various examples of this level of engagement throughout the year by the Board. This has included site visits with employees, engagement with industry and regulator representatives (such as Ofwat), and participation by our non-executives at industry forums. This year the best examples of this are our planning for PR24 and our employee engagement.

### Engagement in action – PR24:

The Board plays an active role in the development and oversight of the Company's emerging Long-Term Delivery Strategy (covering the period 2025-2050) and its PR24 Business Plan (covering 2025-2030). Both these Ofwat submissions are due to be submitted in October 2023.

A specific PR24 Board committee was set up in December 2021, consisting of the full membership of the SES Water Board, supplemented with external advisors, and the majority of the internal PR24 team. The PR24 Board meets formally approximately every six to eight weeks to review progress of the programme and provide challenge and sign off as required. All key strategic decisions related to the Business Plan are proposed, discussed and agreed by the Board. There exists a detailed Board interaction plan which encompasses all key milestones and submission requirements ahead of the final submission.

Each PR24 workstream has a non-executive director allocated to it to assist with development of the programme and enable a more thorough deep dive into programme content when required.

A separate PR24 Steering Committee was also established in January 2022, which meets monthly to provide additional programme oversight and guidance. The Board is represented on this committee by the CEO, the CFO and the senior independent non-executive director.

All meetings adhere to the normal Board meeting conventions in relation to documentation, minutes, and recording of actions and decisions.

To meet the specific Board governance requirements set out in Ofwat's methodology, we have engaged PA Consulting to provide independent assurance over the PR24 programme on behalf of the SES Water Board.

### Engagement in action – our workforce:

Due to the nature of their roles within the Company, our executive directors have significant daily interaction with our workforce. The non-executive directors also regularly engage directly with our employees via visits to our head office and our treatment works.

One of our independent non-executive directors, Jon Woods, was designated by the Board to be the Board workforce representative. In this role, Jon 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 his role on the Customer Committee and ESG Committee).

From the JNCC discussions, Jon 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 is working to address, and the successes and morale of the workforce during the year.

Jon'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. His work has allowed the Board to ensure that due regard has been provided on employee interests.

Such decisions in the year have included approval of the new one-year pay deal for the workforce and development of various employee assistance programmes. 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.

## Evaluation of Board effectiveness

The most recent internal review of Board effectiveness was conducted in 2022/23, led via the chair Dave Shemmans, with results presented to and discussed at the Board meeting in June 2023. This internal effectiveness review confirmed the positive progress of the Board on the matters previously raised by the preceding external review and provided a series of recommendations for Board focus in 2023/24.

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 review 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.

The recommendations from the 2020/21 external Board effectiveness review have all been addressed, as documented in prior Annual Reports. The actions arising from the 2022/23 internal Board effectiveness review are documented below.

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 2022/23 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 WTW and enquires into operational policies, practices and procedures.

## Board arrangements

The Board met six times during 2022/23 to conduct regular Board business, in addition to three separate meetings to deep dive on specific topics, including preparation for PR24. Committees met as required and considered regular and ad hoc business. Attendance at meetings by directors is summarised on page 83.

The Board has also established ad hoc committees, chaired by independent directors, to consider key risk items, including the strategy for power purchases (Energy Strategy Committee), for managing the Company's exposure to risks associated with the defined benefit pension scheme (Pensions Risk Management Committee), for considering the way in which the Company should be financed in the future (Financing Committee), for health, safety and wellbeing matters (Health, Safety and Wellbeing Committee), an ESG Committee and a Governance Committee to consider recent requirements from both Ofwat and the FRC in the area of Board Leadership, Transparency and Governance (BLTG). In addition, the Board reconstituted its Price Review Committee (PR24 Committee) in light of the pending PR24 Business Plan submission.

These committees are chaired by independent non-executive directors and comprise non-executive and executive directors with such other senior executives and external advisors 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 2022/23 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 Board has confirmed that the Company has complied with its system of internal controls in the year, noting that controls over Guaranteed Service Standards and Social Tariffs had been strengthened in 2022/23. Improvements in controls over major contracts and aspects of revenue were being actioned by management in 2023/24.

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

### Action points associated with 2022/23 Board Effectiveness review

| Action |
|---|
| **Risk management and operational/financial cost controls:** In the continuing difficult economic environment , ensure emerging risks are fully understood and mitigated and actions implemented to strengthen revenue and cost forecasting. |
| **Succession planning:** Develop succession planning for non-executives given pending expiry of current non-executive terms and taking into account – if appropriate – the results of the ongoing strategic review. |
| **People strategy:** Improve Board involvement in key resource planning and wider people strategy matters. |
| **Board content:** Continue to improve on the balance of Board agendas between operational and strategic matters. |
| **Communication:** Continue to increase Board involvement in overall communications strategy for the Company to ensure alignment of purpose, ambition etc through PR24 and LTDS. |

# **Corporate governance** continued

## 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 whistleblowing, which is detailed in the employee 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.

## 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 61 to 69.

## 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 cash flow 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 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. Whilst the monitoring and control arrangements that operated the year are appropriate, as noted above, areas for improvement have been identified and actions are being taken in 2023/24 to improve controls over revenue and costs to improve financial performance. 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 2022/23

| Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Murray Legg | 14/14 | 4/4 | 3/3 | 2/2 |
| Dave Shemmans | 14/14 | n/a | 3/3 | 2/2 |
| Jon Woods | 13/14 | 3/4 | 3/3 | 1/2 |
| Rebecca Wiles* | 12/14 | 3/4 | 2/3 | 1/2 |
| Kenji Oida | 13/14 | n/a | n/a | n/a |
| Ken Kageyama | 13/14 | n/a | n/a | n/a |
| Paul Kerr | 14/14 | n/a | n/a | n/a |
| Ian Cain | 12/14 | n/a | n/a | 2/2 |

* Rebecca Wiles was appointed on 26 May 2022.

Tax risks are encompassed within the Company's general risk management framework (described on pages 61 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 71.

The financial position of the Company is set out on pages 56 to 60. Note 2.26 of the Financial Statements on page 136 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 reflect the commitment from the ultimate shareholders of the Company (in the form of written letters of support for the next 18 months to December 2024) which including making available £22m in aggregate in the form of equity injections to the Company over the next 12 months. These equity injections allow the Company to deliver its capital programme of investment for the next 12 months, and meet its liquidity and financial covenant requirements.

The directors have assessed – and are satisfied with – the shareholders' ability to make such funds available in the form of equity injections and the first instalment of £2m has been received. No repayments of the Company's long-dated bond are due within the next 12 months. The directors have also considered plausible downside scenarios having regard to the ongoing high inflationary environment, the company's forecast liquidity, refinancing of £50m (of the aggregate £75m) revolving credit facility (RCF) due July 2024 and the long-term bond covenants. If required the company has a number of mitigating actions to deal with liquidity issues, including future RCF and debt financing, re-scoping and deferral of capital projects and written commitments from shareholders through the aforementioned letters of support to address such downside scenarios.

SES Water – the Appointee – is the only entity within the regulatory ring-fence required by Appointee's licence. The directors have considered the financing of other entities outside of the regulatory ring-fence and within the wider East Surrey Holdings Group, and are not aware of any entity's external debt that would result in an issue with respect to SES Water's going concern status. In accordance with SES Water's licence none of the debt outside the ring-fence is guaranteed by SES Water and there is no cross-default in SES Water's debt to the debt outside the ring-fence.

In the event that the ongoing strategic review results in the sale of the company within the Going Concern period, the directors expect that as part of the process of transferring the Company's water supply licence a new owner would be required to confirm appropriate ongoing funding arrangements.

# Corporate governance continued

## Long-term viability statement

### Introduction

The directors have assessed the viability of the Company to March 2033, taking account of the Company's current position, performance, future plans and the potential impact of the principal risks documented in the Strategic Report. The main purpose of performing such an assessment is to ensure that the Company is financially resilient for the medium term and can withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service in the event such adverse events materialised.

The directors have determined that the period to March 2033 is an appropriate period over which to provide this viability statement. The 10-year assessment period ending 31 March 2033 covers the remainder of AMP 7, AMP 8 and the early part of AMP 9. The Company is developing its AMP 8 business plan for the 2024 Price Review ("PR24") with AMP 9 representing an extension of such assumptions. Whilst the Company has reasonable visibility over AMP 7, the level of uncertainty increases the longer the look-forward period as the variability of potential outcomes increases over time. The assessment takes into account the Company's current liquidity position and committed borrowing facilities and its potential mitigating actions including increasing both borrowings and equity and suspension of dividends.

Following the £22m of equity already committed by our shareholders for 2023/24, further funding will be required in the future commencing in 2024/25 to, amongst other things, invest further in our capital programme for the rest of AMP 7 and AMP 8 and increase our financial resilience through lowering gearing should pressures continue from high inflation. The additional funding will be required regardless of the potential change in ownership that may arise from the ongoing strategic review by our shareholders and will be a consideration in the strategic review conclusions.



The Company's medium term financing objective is to target not more than 75% gearing, maintain its investment grade credit rating and meet the covenants of its long-dated bond and any new borrowings.

In making this assessment, the directors:

1. 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 2022/23 performance, expectations for the rest of AMP 7 and the draft AMP8 business plan).
2. Expect that a new owner would be required, as part of taking on the Company's water supply licence, to confirm appropriate ongoing financing requirements.
3. Reviewed the corporate structure of the ESH Group (as detailed on pages 6 and 7) and that the wider Group structure does not impact the viability of the Company.
4. Incorporated the following key assumptions underpinning the assessment:
   - SES Water will be able to continue to access debt finance and capital markets, including to re-finance our revolving credit facility in 2023/24 and re-finance our long-dated index-linked bond commencing in 2027.
   - Determinations of future Price Reviews are based on reasonable terms which would take into account Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions with debt and equity capital.
   - The water sector is not renationalised.

### Scenarios

The directors have tested the Company's ability to withstand the impact of scenarios as suggested by Ofwat, including the following:

- 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 following:

### 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.

We have modelled that the cyber-attack is assumed to be short term in nature (lasting a few days), all additional expenditure is assumed to be opex in order to remediate the incident and compensate for the impact to customer service equivalent to 4% of turnover estimated at £3.0m.

Principal risks associated with the cyber-attack include:

- Delivery of poor customer service
- Loss of customer data
- Unable to operate our information and data systems to deliver operational performance
- Failure to supply water to meet customer demand.

### 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 WTW assets
- This results in an interruption to water supply to a significant portion of our customer base.

We have modelled a major water quality incident that affects 10% of our customer base with compensation payments to customers and additional opex incurred estimated at £3.7m.

Principal risks associated with the a water quality failure include:

- Delivery of poor customer service
- Failure to supply water to meet customer demand
- Failure to meet our legal and regulatory obligations as a water provider.

**Loss of high-quality employees:**

- A sustained loss of employees due to illness or significant work-based disputes occurs that results in key activities not being able to be performed across the Company.

We have modelled that one third of the workforce is replaced by temporary staff, additional opex is included to hire and train these temporary employees to perform key duties estimated at £1.0m.

Principal risks associated with a loss of key employees include:

- Delivery of poor customer service
- Failure to supply water to meet customer demand
- Loss of company knowledge.

**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
- 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.

We have modelled that additional expenditure is incurred (assumed at 10% of total opex), potentially through the need to contract with external parties, to manage daily activities estimated at £4.6m.

Principal risks associated with an underperformance of opex include:

- Failure to fund additional expenditure
- Liquidity constraints
- Adverse pressure on financial covenants.

**Continued impact of cost of living issues**

The cost of living issues impact our customers' ability to pay their water bills.

We have modelled that a further increase of 20% on our bad debt provision occurs where customers are unable to pay their water bills, estimated as an increase of £1.8m to our bad debt provision.

Principal risks of the cost of living crisis include:

- Increase in customer debt levels
- Failure to fund lower cash levels
- Liquidity constraints
- Adverse pressure on financial covenants.

**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.

We have modelled that additional capital expenditure (equivalent to 2.5% of total AMP opex) is incurred when compared with forecast amounts estimated at £2.9m.

Principal risks of climate related costs include:

- Failure to fund additional expenditure
- Failure to supply water to meet customer demand
- Failure to meet our legal and regulatory obligations as a water provider
- Adverse pressure on financial covenants.

**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.

We have modelled that additional expenditure is incurred when compared with forecast amounts to fulfil these fees estimated at £2.0m.

Principal risks associated with any redemption costs of our bond include:

- Failure to fund additional expenditure
- Adverse pressure on financial covenants.

**Higher increase in inflation rates**

- Our index link bond is increased each year by RPI, in a high inflation environment this increases the level of debt that we have and is repayable to bond holders. We have modelled that a 2% increase in CPIH and RPI rates is assumed from Year 4 onwards assigned to the Office for Budget Responsibility (OBR) inflation forecast
- Whilst inflation benefits our RCV there is a adverse differential due to the RPI linked debt.

Principal risks associated with an increase in inflation include:

- Significant increase in our gearing
- Adverse pressure on financial covenants.

**Combined scenario**

- A combined scenario for the above cyber-attack, operating expenditure underperformance and the impact of high inflation.

We continue to consider these 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 as 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 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 £100m index linked bond by raising additional debt to mitigate the cost or impact of the scenario. 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, and should be sufficient to maintain investment grade status. Annual compliance with financial covenants is subject to external assurance and certificates of compliance with the broader covenants of the £100m index-linked bond are issued annually to the independent Controlling Finance Party.

# Corporate governance continued

These assumptions within this long-term viability statement are based on those assumptions utilised in our PR19 Business Plan and Ofwat's Final Determination, updated for the Company's latest 2022/23 performance and draft AMP 8 business plan. These PR19 assumptions were subject to our well-established internal procedures for managing data quality and assurance that are being taken forward into our ongoing planning activity for AMP 8. In addition, for the PR19 Business Plan 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 AMP 7 plan. Assurance procedures have not yet been undertaken on the draft AMP 8 Business Plan. The directors have concluded that sufficient assurance has been conducted for the purpose of this LTVS.

Having, as discussed above, obtained additional equity to achieve the target gearing of 75%, and on the basis of these assumptions, the headroom to raise additional debt within our covenants would be sufficient to address the above scenarios with the exception of the combined downside scenarios, which would require further debt or equity funding.

### Board's conclusions

The Company has support from its shareholders to ensure its financial viability to December 2024, being the end date of the 18 month letter of support. After that, as set out above, the Company needs to refinance its existing debt and obtain additional equity and debt to fund its medium-term investment programme, maintain its viability and facilitate mitigation of plausible downsides. Depending on the outcome of the shareholders' ongoing strategic review, this may involve new owners. Pending the outcome of the strategic review, there is uncertainty on the way forward for the Company's medium term financing , but the directors have a reasonable expectation , given the Company's position and prospects and the provisions of the regulatory environment, that appropriate future financing arrangements will be put in place to enable the Company to fulfil its obligations, including meeting its liabilities as they fall due, over the period to March 2033.



## 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 29 June 2023.

Report from the Nomination Committee

# Statement by the Chair of the Nomination Committee

The Nomination Committee met twice during the year, focusing primarily on non-executive and executive succession planning, and ensuring that the requisite skillset was maintained at both Board and senior management level to manage the significant workload and challenges facing the business, especially in light of the ongoing strategic review being conducted by our shareholders and the pending PR24 Business Plan submission.

I am pleased with the progress the Committee has made on ensuring the stability of the Board and executive management team in the last year, which has been critical in the Company's preparations for the submission of its PR24 Business Plan in October 2023.

**Dave Shemmans**
Chair of the Nomination Committee
14 July 2023

# **Statement by the Chair of the Nomination Committee** continued

### Membership and meetings attended:

| | |
|---|---|
| Dave Shemmans (Chair) | **2/2** |
| Murray Legg | **2/2** |
| Jon Woods | **1/2** |
| Ian Cain | **2/2** |
| Rebecca Wiles | **1/2*** |

* Rebecca Wiles was appointed on 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.

## Activities of the Committee

In summary:

The Board appointed Dave Shemmans 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 ten years and four months, compared with the normal limit of nine years.

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 is also the 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.

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 technical 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 Committee recommended and approved the appointment of Rebecca as Chair of the Health, Safety and Wellbeing Committee from 1 April 2023 until 31 March 2025.

The Committee recommended and approved the renewal of the appointment of Jon Woods as an independent non-executive director for a further and final three-year term, effective from 1 April 2022 until 31 March 2025.

The Committee recommended and approved the appointment of Jon Woods as Chair of the Remuneration Committee from 1 April 2022 until 31 March 2025.

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

Last year saw the appointment of Dan Lamb to the role of Chief Digital & Information Officer (CDIO) on the Executive Leadership Team. An external recruitment company conducted the process; however, Dan successfully came through our internal succession planning process. The Nomination Committee considered management's recommendation for the Chief Digital & Information Officer appointment.

The Board is committed to evaluating its performance every two years, with the most recent internal evaluation being concluded in May 2023. The Board concluded during this recent review that it remained satisfied that the Nomination Committee continued to perform its duties in line with its terms of reference.

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

The whole Board has reviewed the Company's diversity and gender pay action plan and Equality, Diversity and Inclusion Policy, and remains committed to promoting and supporting an inclusive environment built on our values, where everyone can flourish irrespective of their background and personal characteristics. More information, including our gender pay reporting, can be found at https://seswater.co.uk/about-us/publications/our-gender-pay-gap-report

## Looking ahead

Looking ahead, the Committee, and the Board as a whole, will start to prepare for replacements of myself in December 2024, Murray Legg in September 2024 and Jon Woods in March 2025. This will need to be done in a way that ensures continuity of knowledge and experience, takes into account gender diversity matters, considers the regulatory price control cycle and has regard, if appropriate, to the outcomes of the strategic review.

The Committee will continue to focus its attention on 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.

## Report from the Audit Committee

# Statement by the Chair of the Audit Committee



The Audit Committee continues to seek to ensure the Company's financial and regulatory processes, controls and reporting remain robust, and that there is effective risk management in place throughout the Company.

As noted in the Financial Review, the year ended 31 March 2023 was particularly challenging for the business due to unprecedented inflation and tough economic conditions, which resulted in significant pressure on the Company's index-linked bond's financial covenants.

Therefore, a key focus of the Committee, working closely with the Financing Committee, has been to ensure the Company, with the support of its shareholders, has appropriate plans to maintain its financial resilience and going concern status.

The Committee continued its core activities which include ensuring compliance with statutory and regulatory reporting requirements, and reviewing key accounting and judgemental matters. The Committee also focused on ensuring high standards of integrity, financial reporting, risk management and internal controls. The Committee supports management's plans in 2023/24 to enhance controls over revenue and major contract costs, and improving financial data reporting from Aptumo, the Company's billing system.

Throughout the year, the Committee and management maintained positive engagement with the external auditor.

I continue to be impressed by the diligence and seriousness the Company applies to its assurance activities, and to the work performed to ensure the ongoing financial resilience of the Company despite the challenges that the business has and continues to face.

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 financial performance and strategy. I am satisfied that, as a result of the work undertaken during the year, the Committee has acted in accordance with its terms of reference.

Murray Legg

**Murray Legg**
Chair of the Audit Committee
14 July 2023

**Membership and meetings attended:**

| | |
|---|---|
| Murray Legg (Chair) | **4/4** |
| Jon Woods | **3/4** |
| Rebecca Wiles (appointed 26 May 2022) | **3/4** |

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 directors did not consider the decision-making of the Audit Committee to be adversely impacted. Dave resigned from the Audit Committee upon appointment of Rebecca.

**Attendees:**
The Chair, 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 all meetings 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.

**Responsibilities:**

- 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.

**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.

## 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, attending its Audit Committee.

The Committee receives regular accounting and corporate governance updates at least twice each year as well as specific or personal training. During 2022/23, members of the Committee, in conjunction with the full Board, received online training provided by the Company covering a variety of topics, including whistleblowing and data protection. Members of the Committee periodically visit WTW, 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, and in 2022/23 this has included detailed reviews – together with the full Board – on PR24 Business Plan matters.

## Main activities of the Committee

The Audit Committee met four times during 2022/23, and on 14 June 2023 to consider and approve this Annual Report which was then approved by the Board on 12 July 2023. At least once a year a private session is held with 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 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 – notably cash collections and bad debt provisioning, financial resilience matters (in conjunction with the Financing Committee), cyber security and the results of reviews undertaken of major contracts and Guaranteed Standards Scheme procedures.

# **Statement by the Chair of the Audit Committee** continued

### Financial resilience matters

SES Water has been impacted by high inflation increasing the cost of chemicals and consumables across both our operational and capital programme, which has put considerable pressure on liquidity in the year. The Company has fully drawn down on its £75m revolving credit facility in 2022/23.

In addition, the Company has been significantly impacted by rising inflation on the cost of the long-term RPI linked bond; this has put unprecedented pressure on the bond covenants at year end and, as a result, has seen a reduction in headroom under the gearing covenants. The shareholders remain supportive throughout and have committed to providing equity in 2023/24, ensuring that the Company maintains a sufficient level of financial headroom.

All bond interest cover ratios (including the impact of inflation) were met at year end through additional funds provided by NatWest in the form of a short-term £15m overdraft and a £7m loan from the ultimate parent company. These funds have been repaid in early 2023/24.

### Cyber security

The Committee's consideration of the threat to assets, controls and personal data (of employees, customers, and data-share partners) 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. While the Committee noted the effectiveness of the Company's existing protective measures the Committee continues to work with management to enhance plans for handling cyber threats to water quality and operations.



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, as well as risk and controls, are discussed with the Committee, together with requisite learnings and actions.

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

- 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 62 to 66 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 £100m index-linked bond, including the maintenance of appropriate financial ratios and the funding of ring-fenced reserve accounts
- 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 2023/24
- 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) and the accounting for the "buy-in" undertaken by the Scheme's trustees
- Review of compliance of the Company on service level agreements with SES Business Water and other associated companies, ensuring services provided are on an arm's-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 and the ongoing effects of the 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 derecognition of revenue where there is a history of customer not paying water bills
- 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 with a review in the year being completed to ensure that rates of recharge reflected mix of work done. 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 Assets, including the commencement of depreciation charges, and that appropriate review by management continued 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 carefully considered the Company's liquidity and forecast obligations 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.

The Committee noted that management has considered the impact of the current economic conditions, the need for equity support from its shareholders, the ability of the shareholders to fulfil such support and the possible impact of the strategic review if that leads to a transfer of ownership to a new shareholder. The directors have also considered plausible downside scenarios having regard to the ongoing high inflationary environment, the Company's forecast liquidity, refinancing of £50m (of the aggregate £75m) revolving credit facility (RCF) due July 2024 and the long-term bond covenants.

# Statement by the Chair of the Audit Committee continued

## Fair, balanced and understandable report

The UK Corporate Governance Code requires the Board to consider whether the Annual Report has been, 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 has drawn further assurance from the close personal involvement of executive directors and senior employees in the preparation and review of the Annual Report, reflecting the detailed involvement that senior employees 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 satisfactorily 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 its meeting in November 2022. Regular dialogue was held with the auditor regarding the progress and findings from the audit. 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 whether 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 its year-end reporting to the Committee and published audit report.

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 its 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 has been Richard French.

Note 6 to the statutory accounts (page 139) 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 its 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 Chair of the Committee. Amounts under this threshold will be approved by the Chief Financial Officer and are considered pre-approved by the Audit Committee.

## Report from the Remuneration Committee

# Statement by the Chair of the Remuneration Committee

I am pleased to present the Chair's statement on behalf of the Remuneration Committee for the year ended 31 March 2023.

This statement outlines our approach to executive remuneration and highlights the actions taken by the Committee to make sure we have a fair and transparent reward system, aligned with the long-term interests of our Company and its stakeholders.

The focus of the Committee in 2022/23 has been to make sure the reward and incentive schemes for both our executives, senior managers and employees are fair and effective. In a competitive job market we want to be able to attract, and retain, high calibre individuals who will deliver our values and performance commitments, providing service excellence to our customers, while always having a positive impact in the environment in which we operate.

In April 2023 we reviewed our Executive Pay Policy. No fundamental changes were necessary. The policy continues to be transparent on how executives are remunerated and makes sure any performance related element is linked to customer interests and environmental metrics. The targets set are stretching in nature and are continually assessed to make sure they remain stretching throughout the 2020 to 2025 Business Plan period. The policy continues to allow the Committee the flexibility to consider pay awards in the context of external pressures such as the current economic climate and the cost-of-living crisis, making sure the appropriate remuneration has been provided to executives, and our employees, in light of another year of difficult circumstances.

Full details of the Executive Pay Policy, in addition to the achievements against the targets for 2022/23, and the consequent bonuses payable to executive directors, are set out in this report. These targets are also shared by the employee bonus scheme.

We firmly believe executive remuneration should be designed to attract, motivate, and retain exceptional talent, while maintaining a clear link between pay and performance. Our Executive Pay Policy aims to strike the right balance between providing competitive rewards to drive company growth, shareholder value and making sure we have responsible and prudent governance.

We reacted fairly to the challenges of the cost of living crisis by awarding a 6.5% pay increase plus a cost of living allowance of £800 for employees earning up to £34,999 and £650 for employees earning from £35,000 to £49,999 paid in December 2022, and £250 to all employees (excluding the executive and senior leadership team) paid in January 2023. As part of the pay review process this year, we ensured that no employee was paid under the Real Living Wage rate of pay.

> "Ensuring that our employees are rewarded fairly for delivering our customer, operational and environmental targets continues to be a key focus of the Committee."

The Remuneration Committee met throughout the year to oversee remuneration arrangements for senior executives and managers joining the Company which continue to be effective in attracting talent and contributing to the long-term success of the Company. In addition the Committee discussed, challenged and agreed the executive directors pay and benefits, ensuring that their long term incentives and bonuses were payable on achievement of the targets set out in this report.

The achievement of these results against target are noted on page 108.

# **Report from the Remuneration Committee** continued

As well as remuneration we offer our employees a range of wellbeing schemes including medical cash plans, EAP and medical health insurance. We have 1 in 13 trained as mental health first aiders and offer annual health checks and we will be partnering with a financial education company.

The Committee continues to focus on equality, diversity and inclusion, progress against our action plan being presented at the main Board earlier in the year. We are proud that the Company provides equal opportunities for everyone in our business. We continue to review our gender pay gap – data for this can be seen in the report dated 5 April 2022. Our report showed the difference in median pay has improved marginally to 11.7% (2021: 14.7%).

"We believe our remuneration policies and practices attract and retain high-calibre individuals, promote performance, and align the interests of our directors and key executives with the long-term success of the Company."

We are committed to:

- Creating a diverse and gender balanced workforce, making sure equal opportunities for all our employees and reflecting the community we serve
- Having remuneration policies and practices which attract and retain high-calibre individuals, promote performance, and align the interests of our directors and key executives with the long-term success of the Company
- Regularly evaluate and refine our remuneration policies to make sure they continue to align with best practices and meet the evolving needs of the Company and our stakeholders.

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

Jon Woods

**Jon Woods**
Chair of the Remuneration Committee
14 July 2023

## Implementation of Executive Pay Policy in 2022/23

**The table below summarises the implementation of the directors' Executive Pay Policy for executive directors in 2022/23.**

**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 meetings attended:**

| | |
|---|---|
| Jon Woods (Chair) | **2/2** |
| Dave Shemmans | **2/2** |
| Murray Legg | **2/2** |
| Rebecca Wiles | **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 executive and 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.

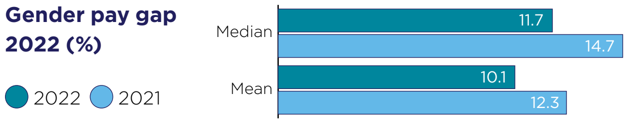
**Terms of reference:**
The Committee's full terms of reference as approved by the Board can be found on the Company's website.

## Gender pay and bonus pay gap percentages

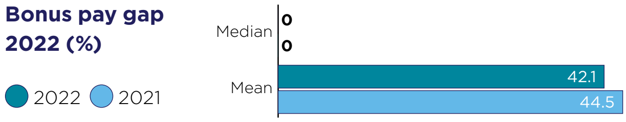
The differences in adjusted hourly pay between the average (mean) or middle (median) man and the average or middle women expressed as a percentage of the man's pay.

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

**Gender pay gap 2022 (%)**

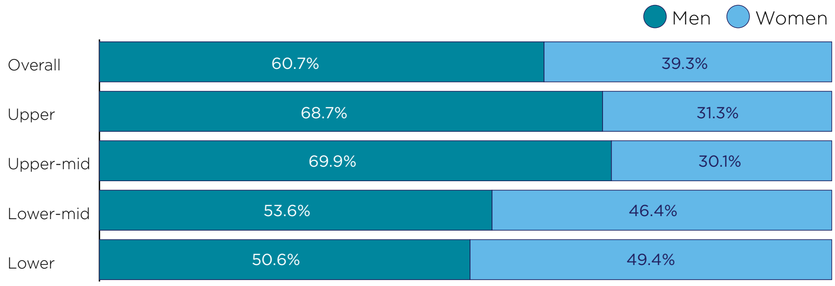



**Bonus pay gap 2022 (%)**




## Pay quarters

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




## Gender split by role

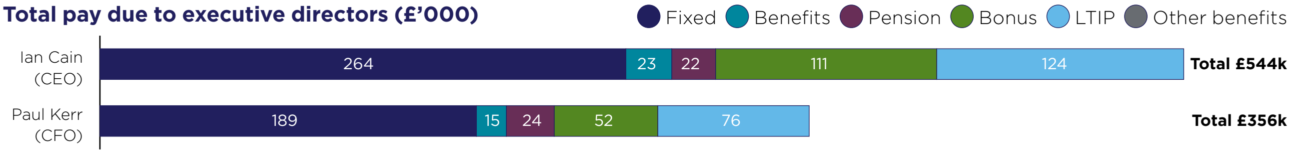
| | Female | Male | Total |
|---|---|---|---|
| Director | 0 | 2 | **2** |
| Employees | 133 | 189 | **322** |
| Non-executive director (NED) | 1 | 3 | **4** |
| Senior manager | 8 | 8 | **16** |
| **Total** | 142 | 202 | **344** |



## Updated Executive Pay Policy in 2022/23

The table below summarises the update of the Executive Pay Policy in 2022/23. As described further in this report, an updated Executive Pay Policy has been implemented from 1 April 2023.

**Total pay due to executive directors (£'000)**

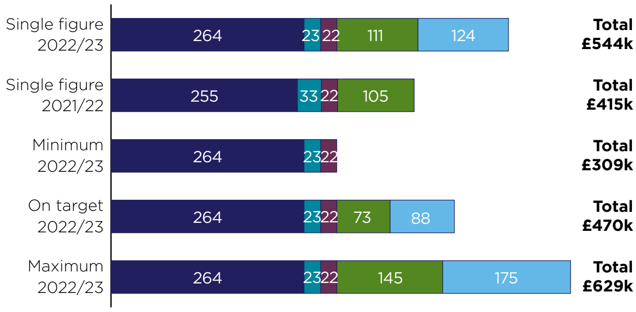



## Single total figure of remuneration for executive directors for 2022/23 compared with performance scenarios

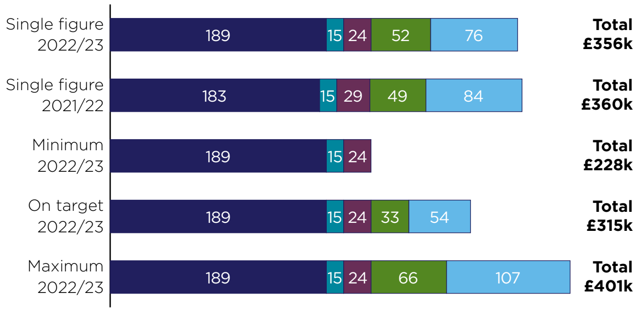
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits such as bonus and LTIP. The charts below show the relative split between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 104.

Fixed · Benefits · Pension · Bonus · LTIP

**Ian Cain (£'000)**




**Paul Kerr (£'000)**




Note: Single figure relates to actual remuneration in that time period.

# **Report from the Remuneration Committee** continued

The Company's Executive Pay 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 2023 are shown below.

## Updated Executive Pay Policy – effective from 1 April 2023

While this remuneration report focusses on Board and executive directors' remuneration for the year-ended 31 March 2023, the Board acknowledges and fully agrees with Ofwat's 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. In particular the Board has considered the recent letter from Ofwat in December 2022 emphasising the importance of performance for both customers and the environment when considering executive pay.

Specifically, the Executive Pay Policy effective from 1 April 2023 continues to incorporate a substantial link between executive pay and delivery for customers and the environment within the Company's long-term incentive plans (LTIPs). The latter provides clear customer-based targets and measurement criteria, ensuring the position that 70% of any potential LTIP award is aligned to customer performance and service and 30% relating to 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 May 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 or 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 Executive Pay Policy incorporates business resilience as it supports customer performance into the LTIPs as opposed to just financial performance ensuring that executives have a responsibility to the long-term financial sustainability of the Company. 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 impact of the cost of living crisis and macro-economic environment, 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 our Executive Pay Policy over time and, where it develops and changes, we will explain the reasons in our Annual Report and signal changes to stakeholders. Our shareholders are involved in determining the Executive Pay Policy. 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 detail elements of executive directors' remuneration for the 12 months ended 31 March 2023, for the LTIPs all awards were considered under the updated Executive Pay Policy considered above.

## Components of executive directors' remuneration applicable for the 12 months ended 31 March 2023

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.

#### 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 to recruit and 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 2002. 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.

# **Report from the Remuneration Committee** continued

## 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.

### Performance metrics

The weighting of annual targets under the policy is 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%** |

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, and therefore no changes to these metrics have been made for 2023/24.

| | % 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 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

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 Executive Pay Policy was updated to substantially change the targets and measurement criteria for the Company's LTIPs commencing 1 April 2020. This update to the Executive Pay Policy in prior years did not change the on-target and maximum available opportunities available under the LTIP for the CEO and CFO. In 2021/22, these performance targets have been aligned even further to performance for customers, and in 2022/23 have been enhanced further to reflect focus on environmental resilience, with the requisite weighting as follows:

- Customer performance, service and support – 70%
- Environmental and reputational resilience – 30%

Given the updates to the Executive Pay Policy noted above in recent years, and the improved alignment to customer and environmental performance, no further changes to such metrics have been made for 2023/24.

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, 70% 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 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 and overall sustainability agenda form part of the overall executive LTIP scheme.

# **Report from the Remuneration Committee** continued

## Customer performance through business resilience – 2022/23

| 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<br>– 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<br>– Outperformance of budget (allowing delivery to customers in an economically efficient manner)<br>– Business plan financial covenant and gearing ratios are met<br>– Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions | 25% |
| **Total weighting** | | **40%** |

## Customer service and support – 2022/23

| 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 hardship** | 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%** |

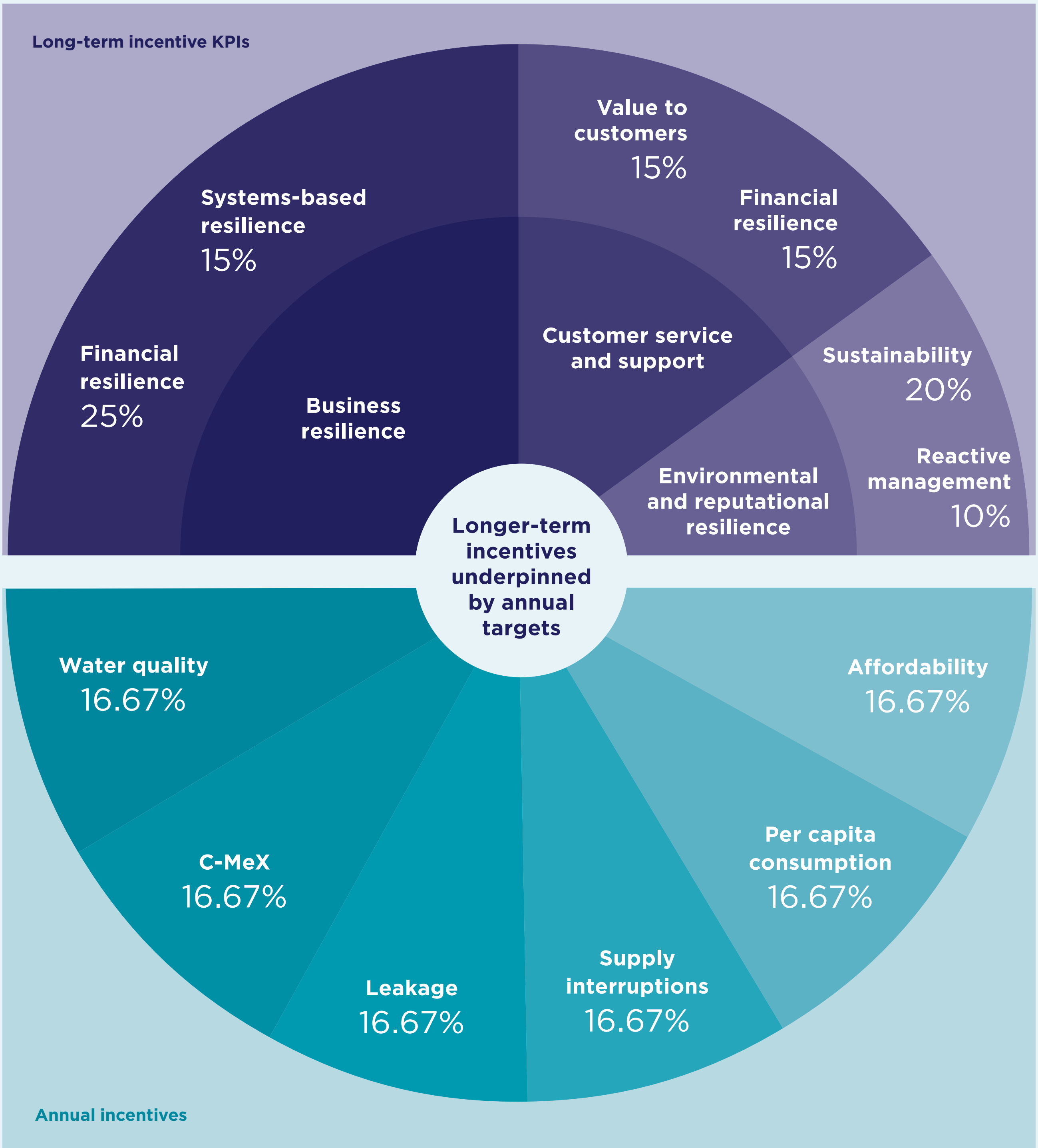


## Environmental and reputational resilience – 2022/23

| 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) | 20% |
| **Reactive management** | Appropriateness of steps taken by management in light of potential reputational issues | 10% |
| **Total weighting** | | **30%** |

**Linkage of annual and long-term incentives to business strategy**

While the policy 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 delivers service excellence.



# Report from the Remuneration Committee continued

## Remuneration scenarios for executive directors

| Target | Measurement criteria | Weighting | Weighting |
|---|---|---|---|
| **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 97 | 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 annually 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 88 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 employees, 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
- Reimbursement of business related travel costs and expenses.

Many elements of fixed pay, benefits and pension arrangements are common to all employees. In particular, employees all have the same rights to participate in the Company's defined contribution pension scheme, the cash health plan introduced in 2014 and the employee annual bonus scheme introduced in 2015.

## Gender pay

As a Company, we believe in creating a diverse workforce which ensures equal opportunities for all employees. We do not discriminate based on gender.

We commissioned our sixth gender pay gap report for 5 April 2022, the report showed that the difference in average pay is 10.1% (2021: 12.3%). Full details can be seen on our website. As is common in the utility industry, the main reasons for our gender pay gap is that there are more men than women in senior roles as well as more men in roles that attract shift pay and other working pattern allowances. Men have worked for the Company for many years and moved up our hierarchy, we are working hard to ensure our future looks different.

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.

Through our Diversity & Inclusion Working Group we provide information and support events to promote diversity. We have overhauled our recruitment process – ensuring we have females on our interview panels, and ensuring there are females represented at all stages of the interview process. We write our recruitment adverts in-house, checking language in adverts and job descriptions to make sure there is no gender bias. We support our hiring managers with a range of tools to assess role-based skills and recruitment training as required.

Each year we also celebrate events such as International Women's Day and International Women in Engineering Day with members of our senior leadership team and partner organisations, inspiring people with their stories and providing networking opportunities.

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

## 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 pay rises included in this report were previously agreed with employee representatives in March 2022 for pay awards for the next year commencing 1 April 2022.

- 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
- 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.

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 Executive Pay Policy to determine an appropriate ongoing remuneration package, as detailed in the tables on pages 100 and 101. 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 notice periods in executive director contracts are 12 months from the Company, 6 months from the executive director. Executive directors maybe required to work their notice period or may be provided with pay in lieu of notice or placed on garden leave at the discretion of the Company. The executive directors' contracts commenced on the following dates:

- Ian Cain – 12 February 2020
- Paul Kerr – 13 April 2018

Any payment for compensation for loss of office will be made at the complete discretion of the Board on the recommendation of the Remuneration Committee.

If the Company wishes to terminate an executive director's contract, other than the circumstances where the Company wish to summarily dismiss, it is required to give either 12 months' notice or make a payment in lieu of base salary only. If the reason for dismissal is redundancy the executive director would be entitled to a statutory redundancy payment.

The non-executive directors, including the Chairman, do not have service contracts and their appointments, whilst for a term of three years, may be terminated without compensation at any time. The Chairman and the independent non-executive directors have letters of appointment. The appointments of the current non-executive directors commenced on the following dates:

- Dave Shemmans – 1 September 2014
- Murray Legg – 1 October 2015
- Jon Woods – 1 March 2016
- Kenji Oida – 1 May 2019
- Ken Kageyama – 1 June 2021
- Rebecca Wiles – 26 May 2022

# **Report from the Remuneration Committee** continued

## Single total figure of remuneration (audited)

The table below shows the total remuneration earned by each director in 2022/23.

| | Salary | | Taxable benefits[1] | | Annual bonus[2] | | Long-term incentive[3] | |
|---|---|---|---|---|---|---|---|---|
| £000 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| **Executive directors** | | | | | | | | |
| Ian Cain | **264** | 255 | **23** | 20 | **111** | 105 | **124** | – |
| Paul Kerr | **189** | 183 | **15** | 15 | **52** | 49 | **76** | 84 |
| **Total exec directors** | **453** | 438 | **38** | 35 | **163** | 154 | **200** | 84 |
| **Non-executive directors[4]** | | | | | | | | |
| Jeremy Pelczer | **–** | 68 | **–** | – | **–** | – | **–** | – |
| Murray Legg | **41** | 39 | **–** | – | **–** | – | **–** | – |
| David Shemmans | **81** | 39 | **–** | – | **–** | – | **–** | – |
| Jon Woods | **40** | 34 | **–** | – | **–** | – | **–** | – |
| Rebecca Wiles | **30** | – | **–** | – | **–** | - | **–** | – |
| **Total non-exec directors** | **192** | 180 | **–** | – | **–** | – | **–** | – |
| **Total** | **645** | **618** | **38** | **35** | **163** | **154** | **200** | **84** |

1. Taxable benefits include car allowances, private medical insurance and life insurance.

2. Annual bonuses are variable and were determined in accordance with the policy described on page 96 and reflect the performance against the targets on page 100. Ian Cain's bonus was paid out at 42.2% (against a maximum of 55.0%) of his personal and company specific targets and Paul Kerr's bonus was awarded on achieving 27.4% (against a maximum of 35%) as noted on page 107. No bonuses were deferred.

3. The 2020 LTIP scheme closed on 31 March 2023 and a payment of £123,812 was made to Ian Cain, and £76,112 was made to Paul Kerr in respect of this scheme as detailed below. The other current LTIP schemes (the 2021 and 2022 LTIP) have expected payments accrued as at 31 March 23 but not included in the tables given the payment dates of 2023 and 2024 respectively. No payments to past service directors were made in the period.

4. Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 104. Dave Shemmans, 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 any other Company.



## Details of the annual bonus scheme

The targets and outcomes below are common to all employees including executive and senior management:

| Customer pledge | % split | Actual result |
|---|---|---|
| Water quality | 16.70% | 15.8% |
| C-MeX/D-MeX | 16.70% | 10.0% |
| Leakage | 16.70% | 15.0% |
| Supply interruptions | 16.70% | 15.0% |
| PCC | 16.70% | 5.1% |
| Affordability | 16.70% | 15.8% |
| **Total** | **100.00%** | **76.7%** |

| | Pension related benefits[5] | | Other Payments | | Total Remuneration | | Fixed Remuneration | | Variable Remuneration | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **22** | 22 | **-** | 13 | **544** | 415 | **309** | 310 | **235** | 105 |
| | **24** | 29 | **-** | – | **356** | 360 | **228** | 227 | **128** | 133 |
| | **46** | 51 | **-** | 13 | **900** | 775 | **537** | 537 | **363** | 238 |
| | **-** | – | **-** | – | **–** | 68 | **-** | 68 | **-** | – |
| | **-** | – | **-** | – | **41** | 39 | **41** | 39 | **-** | – |
| | **-** | – | **-** | – | **81** | 39 | **81** | 39 | **-** | – |
| | **-** | – | **-** | – | **40** | 34 | **40** | 34 | **-** | – |
| | **-** | – | **-** | – | **30** | – | **30** | – | **-** | – |
| | **-** | – | **-** | – | **192** | 180 | **192** | 180 | **-** | – |
| | **46** | **51** | **-** | **13** | **1,092** | **955** | **729** | **717** | **363** | **238** |

5. Pension-related benefits represent the Company's payment of pension allowance (at the same contribution rate as their pension entitlement).

Note: No payments were made for loss of office in the period.



## Explanation of variable pay element for CEO and CFO on 31 March 2023 (audited)

### Annual bonus payments

The annual bonus payments for Ian Cain and Paul Kerr of £111k and £52k for the year-ended 31 March 2023 as noted above were based on 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% | 76.7% | £77.9k | 16.5% | 77.0% | £33.5k | 55% | 42.2% | £111.4k |
| Paul Kerr | 24.5% | 76.7% | £35.5k | 10.5% | 82.0% | £16.3k | 35% | 27.4% | £51.8k |

## Long-term incentive awards with performance periods ending in 2023 (audited)

The LTIP payments for Ian Cain and Paul Kerr of £123,812 and £76,112 respectively for the year-ended 31 March 2023 were based on achievements of specific performance targets, granted on completion of the three year performance period to 31 March 2023 (the 2020 Scheme). Achievement against the targets are set out below:

| Performance target | % Weighting | % Achieved | % LTIP award |
|---|---|---|---|
| **Business resilience** | | | |
| Systems-based resilience | 15.00% | 50.00% | 7.50% |
| Financial resilience | 35.00% | 60.00% | 21.00% |
| **Customer service and support** | | | |
| Value to customers | 15.00% | 75.00% | 11.25% |
| Financial resilience | 15.00% | 80.00% | 12.00% |
| **Environmental and reputational resilience** | | | |
| Sustainability | 10.00% | 90.00% | 9.00% |
| Reactive management | 10.00% | 100.00% | 10.00% |
| Total weighting | 100.00% | | 70.75% of maximum |

Note: % achieved based on Remuneration Committee assessment over the performance period.

# Report from the Remuneration Committee continued

## Customer pledges

In line with the Company's Executive Pay 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 the associated outcome delivery incentive – for example the target for supply interruptions is ensuring that the 5 minutes 45 seconds/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 76.67% of these bonus levels – resulting in an actual payout of 29.52% and 18.78% of their annual salary respectively.

| Customer pledge | % split | % achieved | Comment | Actual result |
|---|---|---|---|---|
| Water quality | 16.70% | 95.00% | The Compliance Risk Index (CRI) target achieved within top quartile water quality and an improvement on the prior year (with no regulatory penalties in Yr 3). No significant events in the year and Westwood (prior year incident) successfully resolved with minimal DWI recommendations. A reduction was applied to reflect taste, odour and discolouration (TOD) targets that were not achieved and there was a downside for softening performance, which was not fully met. | 15.80% |
| C-MeX/D-MeX | 16.70% | 60.00% | C-MeX improved on prior year and 13th place expected on league table for overall year, although Q4 C-MeX results reflected an improvement to 10th position. Continued positive progress on D-MeX but Yr 3 expected to be in penalty territory still and potentially worse than Yr 2 with relative sector improvements. | 10.00% |
| Leakage | 16.70% | 90.00% | Yr 3 leakage target achieved through continued effective use of our smart network and other innovative leakage solutions. | 15.00% |
| Supply interruptions | 16.70% | 90.00% | Continued outperformance of the PC, although overall reward lower than prior year. Resilience has shifted ahead of target to in excess of 80% of customers now being served by more than one treatment works. | 15.00% |
| PCC | 16.70% | 30.00% | In the current year, the target has not been met given the continued fallout from COVID-19; however, continued positive activity in roll-out of metering and water efficiency programmes. | 5.07% |
| Affordability | 16.70% | 95.00% | Priority Services Register and Social Tariff better than target in the year and the downside taken in prior year for voids has been removed given that target now achieved. | 15.80% |
| **Total** | **100.00%** | | | 76.67% |



## Personal

In line with the Company's Executive Pay 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 77.0% and 82.0% respectively of these personal bonus levels – resulting in an actual payout of 12.7% 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 (audited)

Ian Cain and Paul Kerr were awarded a LTIP payment of £124k and £76k respectively relating to the 2020 LTIP scheme, which represented 70.75% of the maximum reward. In accordance with the 2020 LTIP scheme rules and metrics, this payout reflected achievement of certain financial metrics for the 3 years to 31 March 2023. The measurements include systems based resilience, financial resilience, value to customers, financial resilience, environmental and reputational resilience. See chart on page 103.

## 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 2023 for the CEO, CFO and all employees.

| | **2023** | | | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Salaries and Fees** | **Taxable Benefits** | **Annual Incentive**[1] | Salaries and Fees | Taxable Benefits | Annual Incentive | Salaries and Fees | Taxable Benefits | Annual Incentive |
| CEO | **3.5%** | **3.5%** | **6.0%** | 2.0% | 230% | 13.6% | 0.0% | 0.0% | 416.7%[2] |
| CFO | **3.5%** | **3.5%** | **7.0%** | 2.0% | 8.2% | 12.0% | 2.2% | 0.0% | 149.0%[3] |
| All employees | **3.5%** | **0%** | **(12.5%)** | 3.5% | 0% | 7.4% | 2.2% | (2.1%) | 7.3% |

1. The 2023 figures do not include LTIP payments, however 2021 and 2022 comparatives include LTIP payments.
2. The 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, compared to a full year's bonus earned in financial year ending 31 March 2021.
3. The 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 3.5% pay rise, 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 Industry 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. We have chosen to use Option A as we consider it to be the most accurate way of identifying employees across the percentile splits.

The table below provides the ratio between the CEO single figure remuneration, the median, 25th and 75th percentile remuneration of all full time equivalent employees as at 31 March 2023.

The calculations shown below are effective 31 March of each year started and there are no divergences noted from the single total figure between the CEO and employees' pay and benefits.

The expansion of the gap is due to the first year Ian Cain being eligible for an LTIP payment at the end of the 2020 LTIP scheme. The salary and total for employees in the 25th percentile is £25,405 (total pay £26,986), for median salary is £30,623 (total pay £34,890) and for 75th percentile salary of £44,636 (total pay £47,624). The increase in median payout ratio is due to the impact of Ian Cains first LTIP payment under the scheme rules. The Committee considers the median ratio to be representative of the Company's pay and progression policies.



| Year | Method | 25th Percentile ratio | Median | 75th Percentile ratio |
|---|---|---|---|---|
| 2023 | Option A | 20:1 | 16:1 | 11:1 |
| 2022 | Option A | 14:1 | 14:1 | 10:1 |
| 2021 | Option A | 14:1 | 14:1 | 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 as described in the financial review.

| £000 | **2023** | 2022 | % change |
|---|---|---|---|
| Employee costs | **15,622** | 15,369 | 1.65% |
| Interest expense | **30,612** | 15,923 | 92.25% |
| Capital expenditure | **25,300** | 27,000 | (6.29%) |

# Directors' report

The directors present their report and audited financial statements for the Company for the year ended 31 March 2023.

## Directors and their interests

The directors who served during the year or were appointed before this report was issued were:

- **D Shemmans,** Chair
- **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)
- **K Kageyama,** non-executive
- **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 105.



## 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 87 to 89 and 95 to 109 respectively.

## 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 Nomination Committee report on pages 87 to 89.

## 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 7. 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 151 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 £100m 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 151.

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 76.

## 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 39, 43 and 80.

## Stakeholder engagement – other engagement

Details of engagement by the directors during the year with the Company's other stakeholders is provided on pages 42 to 45.

## Financial results and dividends

Financial performance for the year is described on pages 56 to 60 in the Financial review.

Revenue for the year ended 31 March 2023 was £67.4m (2022: £63.0m). Loss before taxation was £25.5m compared with a loss in 2022 of £5.4m. A loss of £19.5m was deducted from reserves (2022: £17.3m loss deduction); however, sufficient reserves were still available as at 31 March 2023.

Details of appointed 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 2023 was 0.6 pence (2022: 0.6 pence) per ordinary share.

## Dividend policy statement

Ofwat amended the Condition P of the Company's licence effective from 17 May 2023 introducing specific requirements for declaring and paying appointed dividends. The Company's existing dividend policy applicable for the year ended 31 March 2023, set out below, is overall consistent with these licence changes and the dividend policy will be evolved for 2023/24 and the future to ensure continued compliance.

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
- There would be 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 2023 was £3.1m (2022: £2.9m). 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.

# Directors' report continued

## Board's consideration of dividends

### Appointed dividend payable for the year ended 31 March 2023

The appointed dividend payable in respect of the year ended 31 March 2023 comprises only the interim appointed dividend, declared in November 2022 (and paid in December 2022), of £1.46m, which – on a dividend payable basis – represents a dividend yield for the year of 1.9%. As explained below, in May 2023 the Board determined that no final appointed dividend would be payable for the year.

The Board considered that the interim appointed dividend payable of £1.46m was appropriate and in line with the Company's dividend policy given that:

1. The dividend was calculated for the six months to 30 September 2022 based on Ofwat's allowed return on regulatory equity allowed in the PR19 determination of 3.77%
2. Overall, the Company performed strongly in the first six months of the financial year, to the benefit of its customers, with solid operational performance, managing effectively through the summer drought conditions without supply interruptions or a temporary use ban, maintaining environmental compliance, delivering its leakage targets, consistently delivering high quality water to its customers and improving C-MeX scores (with the expectation that a majority of performance commitments would be achieved for the full year)
3. There were sufficient distributable reserves and available cash within the Company, sufficient liquidity existed, and financial ratios were being met and the Board concluded paying the interim dividend did not materially detract from the financial resilience of the Appointed Business



Whilst operational performance remained strong throughout the full year to 31 March 2023 (with c.76% of performance commitments met for 2022/23 vs 60% in 2021/22 and effective management of winter freeze/thaw conditions), the Board determined not to declare a final appointed dividend payable in respect of the year ended 31 March 2023 having reflected on the financial results for the year, the pressures on gearing and financial resilience in the high inflation environment and the increased levels of uncertainty in the context of the shareholders' strategic review. In particular, with reference to financial resilience:

4. Financial performance for the year ended 31 March 2023 was – at an operating profit level – lower than budget principally due to considerable pressure in the second half of the year from escalating supply costs, high network activity, lower non-household volumes and bad debt. Profit after tax (PAT) was significantly impacted by non-cash items in the year – mainly increasing adverse RPI accretion on our index-linked debt. The adverse movements in RPI on our index-linked debt was the main contributing factor to increased gearing levels
5. While the financial performance at an operating profit level is not expected to be representative of the business' longer-term cash flow and profitability (with an improvement in profitability expected in the last two years of AMP 7 due to revenue recovery and improved cost control), the Board considered that given the financial and economic pressures, and the impact on gearing levels though accretion on the index-linked debt, a final appointed dividend payable in respect of the year ended 31 March 2023 would not be declared.

The directors' decision in May 2023 not to declare a final dividend payable for the year ended March 2023 is consistent with the new dividend policy licence conditions introduced by Ofwat in May 2023.

The Board considers that the overall appointed dividend payable of £1.46m for the year ended 31 March 2023 appropriately balances the strong operational performance in a difficult year and financial measures and uncertainties and is consistent with the Company's dividend policy.

Throughout these dividend deliberations our shareholders have remained supportive, ensuring the Company acts in the public interest.

### Dividends paid in the year ended 31 March 2023

| | **2023** | 2022 |
|---|---|---|
| Dividends paid – appointed | **£3.1m** | £2.9m |
| Dividends paid – non-appointed | **£5.0m** | £0.6m |

### Appointed dividends paid in the year ended 31 March 2023

Due to the timing of appointed dividends declared and paid, the appointed dividend paid in the year ended 31 March 2023 comprised the final appointed dividend from the year ended 31 March 2022 (£1.64m paid in May 2022) and the interim appointed dividend payable in respect of the year ended 31 March 2023 (£1.46m paid in December 2022). The total appointed dividends paid in the year ended 31 March 2023 of c.£3.1m (2022: £2.9m) represents, on this mixed year basis, a dividend yield of 4.0% (2022: 3.5%).

### Non-appointed dividends paid in the year ended 31 March 2023

Dividends paid in 2022/23 by the non-appointed business were £5.0m (2022: £0.6m). Non-appointed dividends are not governed by the appointed dividend policy noted above but are assessed separately based on the overall operational and financial performance of the non-appointed business.

These non-appointed dividends were paid to East Surrey Holdings (ESH) Limited from the accumulated profits and cash generated by the non-appointed business of the Company (accumulated over a number of years from non-appointed activities such as billing on behalf of Thames Water and not distributed in recent years). These monies have been retained within the ESH group and have not been distributed to the ultimate shareholder, but are being utilised, under the approval of the ESH Board, for other ESH Group activities.

## 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 pages 14 to 17.

At the time of issuance of this report the strategic review of the Company is ongoing and our focus remains on delivering for our customers, our communities and our people.

## Research and development

SES Water develops and deploys award-winning innovative solutions and also contributes significantly to the national innovation agenda. Building on our smart water network expertise, we are applying the learning we have gained regarding the Internet of Things and Artificial Intelligence into our above ground asset solutions. Recognising the value in sharing our knowledge with the wider water industry, we became the first UK water company to provide in-depth industry webinars, both of which attracted worldwide attention and were hosted on the new water industry Spring Innovation platform, as well as presenting our findings at a number of national and international conferences. We are currently participating in six Ofwat innovation funded projects run by other water companies, and in addition we have successfully secured our own innovation funding from Ofwat to develop a universal access point for water. In recognition of our expertise and innovation, we were awarded the Innovation Award at the Utility Week Awards for our smart network and have been shortlisted for the Asset Management Initiative of the year 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 emissions factors and carbon reporting guidance from the UK Government.

Net operational greenhouse gas emissions (market-based reporting) in 2022/23 were 2,289 tonnes of carbon dioxide equivalent ($tCO_2e$) (2021/22: 2,800 $tCO_2e$), around an 18% decrease on the previous year. This equates to operational emissions of 37 $kgCO_2e$ per million litres of treated water (2021/22: 46 $kgCO_2e$/Ml). Using 2021/22 emissions factors, operational emissions for 2022/23 would be equivalent to 2,800/62,135.68 = 45 $kgCO_2e$ per million litres of treated water.

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 | **880** |
| Scope 2 | **–** |
| Scope 3 | **1,410** |

Operational greenhouse gas emissions for 2022/23 for the regulated business include (2021/22 emissions are in brackets):

- Gas consumption: 947,045 kWh and 173 $tCO_2e$ (1,244,341 kWh and 228 $tCO_2e$)
- Consumption of travel fuels: 1,679,218 kWh and 424 $tCO_2e$ (4,603,677 kWh and 427 $tCO_2e$)
- Purchase of electricity by the Company for its own use, including for transport: 54,332,386 kWh and 0 $tCO_2e$ (52,506,268 kWh and 0 $tCO_2e$).

Note: all conversions are using the relevant 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 includes an estimate of business miles in company cars which are refunded through expenses. This is because the distance information is not practical to obtain. The Company is exploring options to digitalise the expenses process to make this information more accessible.

In 2022/23, we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. The Company has 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 2022/23, these generated 336,548 kWh (2020/21: 290,024 kWh).

This year there was a reduction in natural gas usage at our treatment works following investment in insulation improvements, which were completed in 2022/23. A programme to remove fossil fuel boilers also commenced during the reporting period. Fuel oil use fell because we did not take part in Triad avoidance, so our generators were not run as regularly.

## Charitable and political donations

During the year, the Company made charitable donations amounting to £32,132 (2022: £34,177). This included a £28,000 donation to the Community Foundation for Surrey. There were no political donations (2022: 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. As a result of a review of supplier payment terms, creditor days has increased to approximately 36 days (2022: 17 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 pages 84 to 86 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.

# Directors' report continued

## 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 3 April 2023 £3m of the shareholder loan was repaid and on 12 May 2023 the £15m overdraft was repaid in full.

On 12 July 2023, the first instalment of committed equity injections was provided by the shareholders, with a £2m injection to the Company.

## 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 s.418 of the Companies Act 2006.



## Auditor

PwC is the auditor at the date of this report.

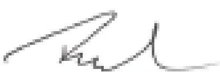
## Corporate governance

The Company's statement on corporate governance can be found in the Corporate governance report on pages 76 to 86 of this Annual Report. The Corporate governance report forms part of this Directors' report and is incorporated into it by reference.

## Annual General Meeting

The 2023 Annual General Meeting (AGM) will be held on 27 September 2023. 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 2023 AGM, resolutions will be proposed, amongst other matters, to receive the Annual Report and financial statements; to approve the directors' remuneration report; and to reappoint PwC as statutory auditor.

By Order of the Board



**Paul Kerr**
Chief Financial Officer & Company Secretary

Redhill, Surrey
14 July 2023
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 auditors are 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 auditors are aware of that information.