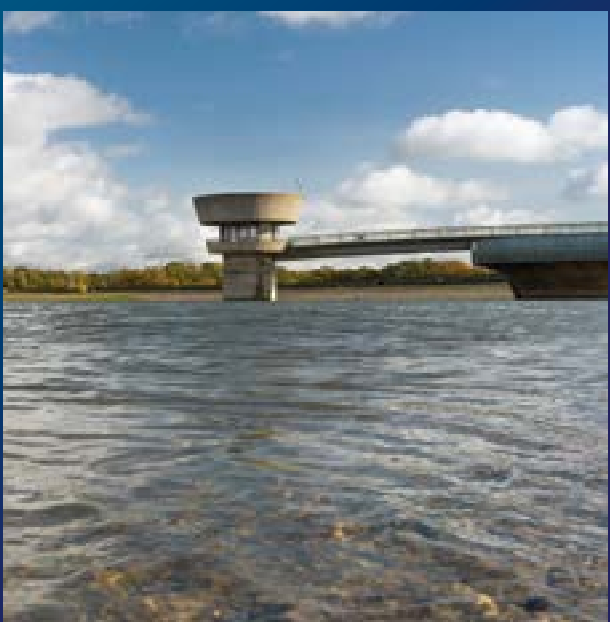
Your water, our promise



SES Water
Annual Report and Accounts 2023

Welcome to SES Water's Annual Report 2023

The Annual Report provides our customers and other stakeholders with clear and transparent information on our performance in 2022/23, including the progress we have made to deliver our customer pledges.

Providing accurate and understandable information which can be trusted by our stakeholders is important to us and makes sure our customers and stakeholders can easily see how we have performed.

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Highlights

We are one of the top-ranking companies for our water quality, as measured by the Drinking Water Inspectorate

We've stayed at or below the maximum allowed level of leakage every year since the target was first set more than 20 years ago, which is industry leading, and we have once again met our leakage reduction target

60 of our employees volunteered to help The Orpheus Centre in Godstone to build a new water efficient, sensory garden to improve the lives of the young, disabled adults who attend the centre

Despite drought being declared in the South East last summer, we didn't have to introduce any temporary water restrictions and avoided any significant supply interruptions for our customers. Interruptions were also minimal during the freeze/thaw in December last year

We achieved our highest ever C-MeX ranking of 10th for the period January to March 2023. For the full year, we finished 13th, which is two places up from last year

We've partnered with Run Series to support both Run Reigate and Run Gatwick for the second time as the events' official water provider, eliminating the use of more than 24,000 single-use plastic bottles at the event

We've won the Utility Week Innovation Award for our fully smart network, which allows us to monitor and repair leaks in near real time

More than 80% of our customers think our extra support schemes are helpful

We have retained The Wildlife Trusts' Biodiversity Benchmark Award for enhancing and protecting the biodiversity at our Elmer and Fetcham Springs sites, and remain the only water company to currently hold the award

We launched our Long-Term Delivery Strategy which shows the priorities and level of ambition we have during the next 25 years. We are also making good progress with developing our Business Plan for the next Price Review period (PR24)

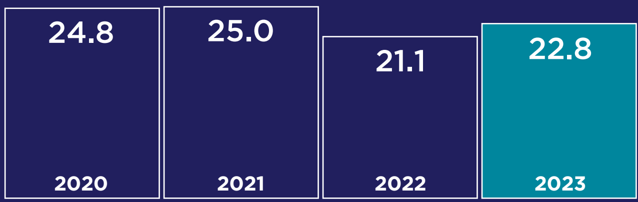
Performance at a glance

2023: Target met/not met

Target met: ✓ Target not met: ✗

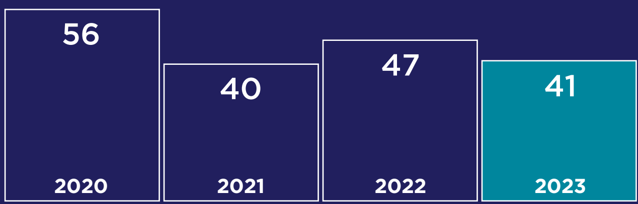
Operational performance

Leakage
megalitres/day
✓ 22.8

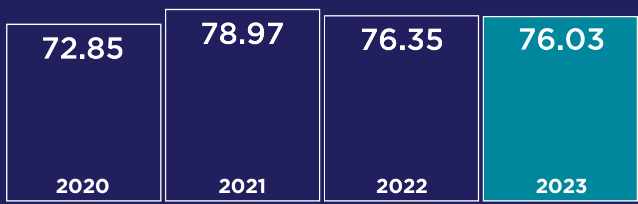


Customers on our Water Support Scheme
(a 50% bill reduction)
✓ 19,476

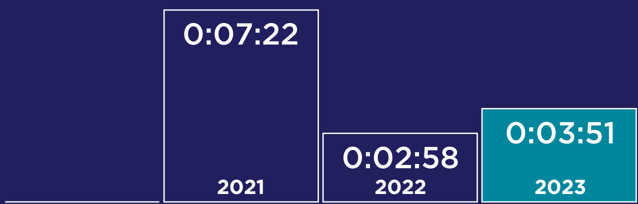
Greenhouse gas emissions
kgCO_2e/megalitre
✓ 41



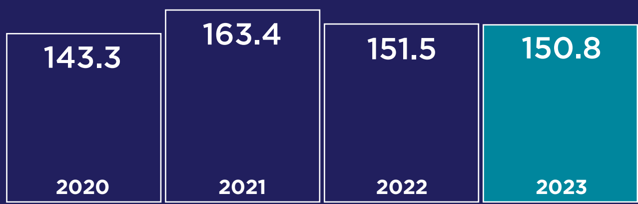
C-MeX score (industry measure of customer satisfaction)
✗ 76.03



Supply interruptions Hours/minutes/seconds/property/year
✓ 0:03:51



Consumption
Litres per person per day
✗ 150.8

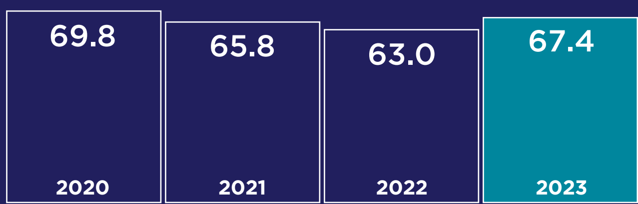


Since the measurement method has changed from 2021, there are no comparable figures for prior years.

Financial performance

Capital investment
£m
25.3

Revenue
£m
67.4



Appointed dividends payable
£m
1.5

Operating profit
£m
4.3

Our business at a glance

Understanding SES Water

Who we are:

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

What we do:

We supply around 160 million litres of clean water every day to more than 750,000 people in parts of Surrey, Kent, West Sussex and South London.

85%
Water coming from underground sources

345
Number of employees

100%
Percentage of our pipe network that is 'smart'

8
Water treatment works

72%
Customers with a water meter

15%
Water from our reservoir

Our values:

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

Service

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

Innovation

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

Collaboration

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

Commitment

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

Integrity

We are accountable, ethical and trustworthy.

Compassion

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

160m
Litres of water supplied daily

19,476
Number of customers on our Water Support Scheme

750k
People our water is supplied to

Our purpose:

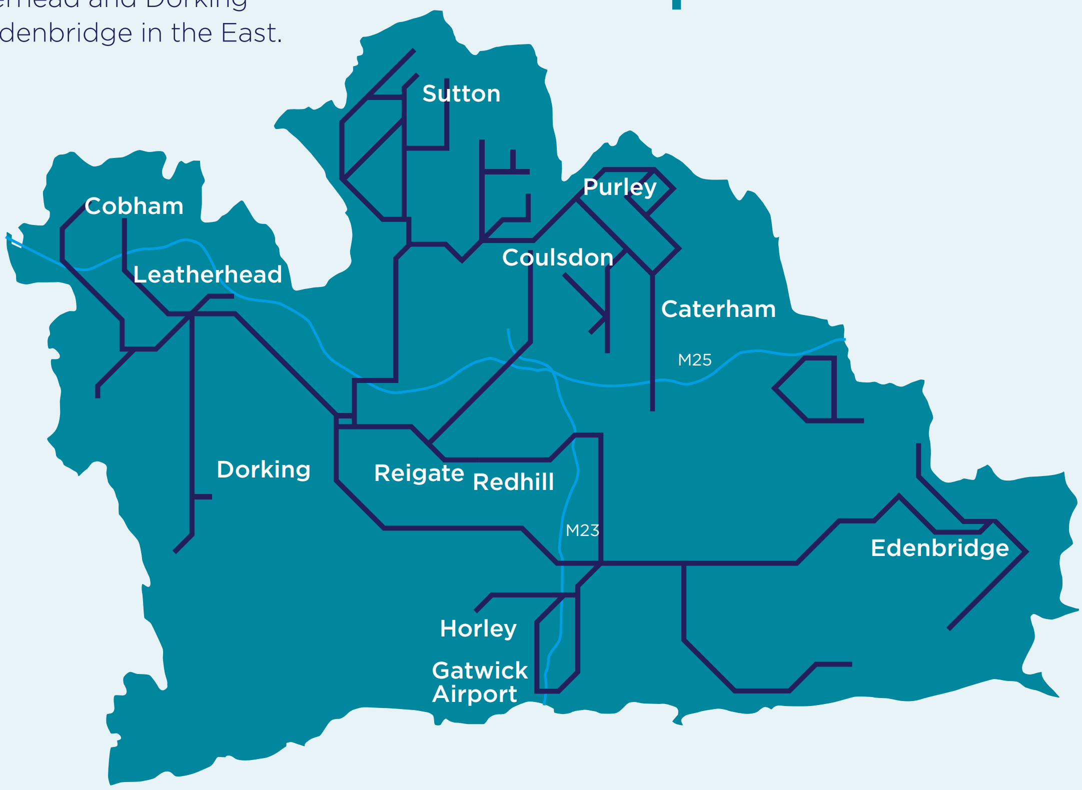
Harnessing the potential of water to enhance nature and improve lives.

Read more on **page 20**

Where we operate:

Our supply area is 322 square miles extending from Morden and South Croydon in the North to Gatwick Airport in the South and from Cobham, Leatherhead and Dorking in the West to Edenbridge in the East.

322 square miles



Business overview

Our structure

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

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

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

Customer experience

Kate Thornton
Chief Customer Officer

Responsible for overall customer experience, communications and community engagement

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

Operations

Tom Kelly
Wholesale Director

Responsible for the delivery of water from source to tap – including maintaining a sufficient water supply and reducing leakage together with overall responsibility for environmental compliance matters

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

Quality and compliance

Nicola Houlahan
Quality and Compliance Director

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

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

Information technology

Dan Lamb
Chief Digital and Information Officer

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

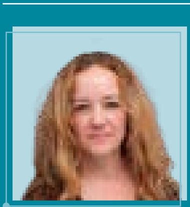
Key functions
Digital strategy, IT infrastructure and support, cyber security and data management

Business support and control

Paul Kerr
Chief Financial Officer

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

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



HR, learning and development

Sarah Brown
Head of People

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

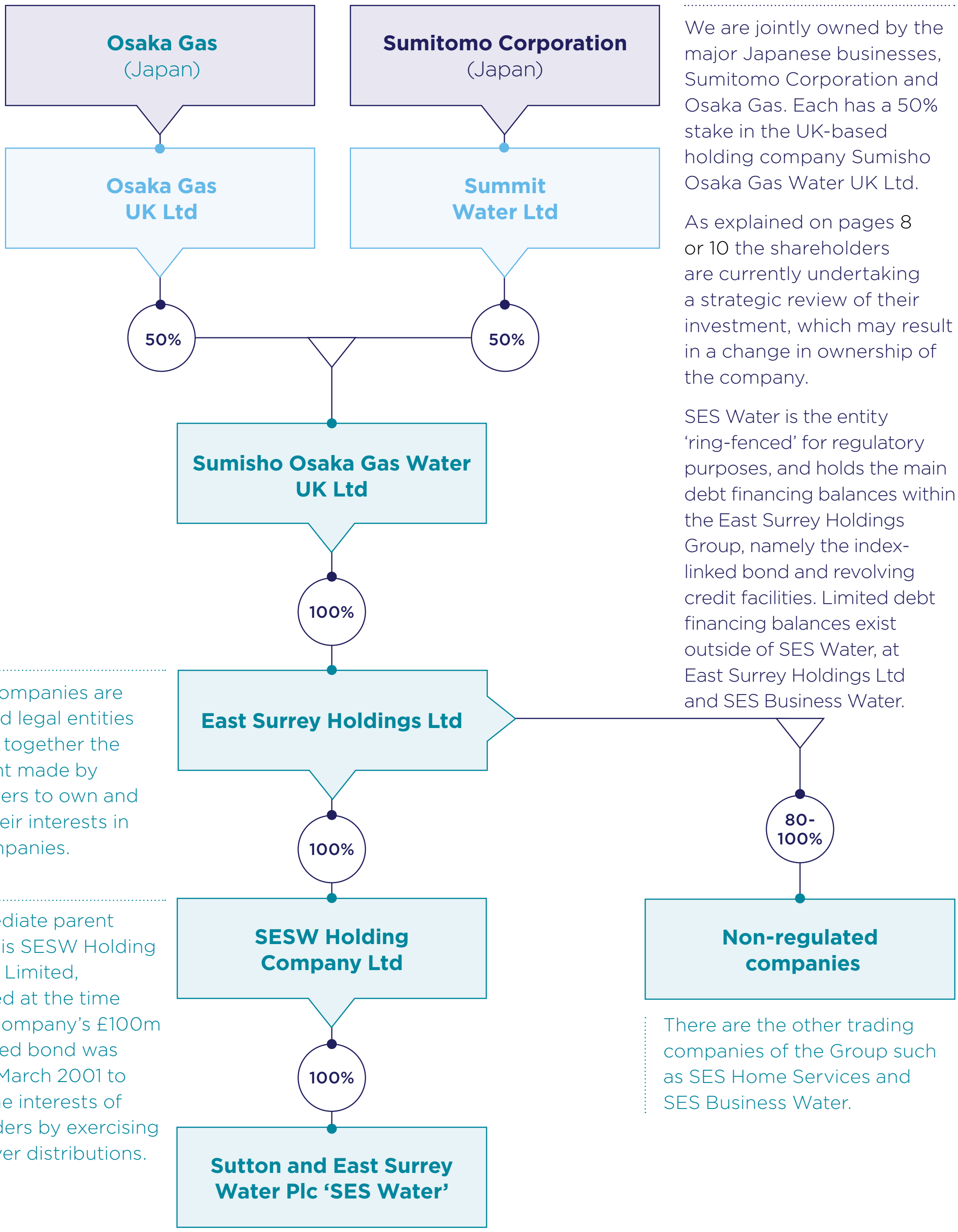
Key functions
Payroll and benefits, learning and development, employee relations, recruitment and retention and employee wellbeing

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

Private ownership

Investing in water services is key to ensuring resilient supplies for customers, both now and in the future and since privatisation in 1989, over £150bn has been invested across the industry. We have always been a privately owned company and have responsible shareholders who put the interests of our customers first, allowing more money to be re-invested in improving our services or kept in reserve.

Like any investors, they expect a return on the equity they put in and over time they have taken a fair level of dividend, in line with Ofwat's allowed level of return. Dividend levels are agreed each year by the Board and take into account how well we are performing against a range of targets, both the commitments we have made to our customers and financial. You can read more about our dividend policy and how payment decisions are made on page 111.



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

As explained on pages 8 or 10 the shareholders are currently undertaking a strategic review of their investment, which may result in a change in ownership of the company.

SES Water is the entity 'ring-fenced' for regulatory purposes, and holds the main debt financing balances within the East Surrey Holdings Group, namely the index-linked bond and revolving credit facilities. Limited debt financing balances exist outside of SES Water, at East Surrey Holdings Ltd and SES Business Water.

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

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

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

Chair's statement

Our Chair reflects on the last 12 months and looks ahead to 2023/24.

"Despite everything we've had to navigate this year, we've continued to provide high-quality water throughout and I'm delighted to see that early results show we're one of the top ranked companies in terms of water quality."

Dave Shemmans
Chair

Q. How has your first full year as Chair at SES gone?

A. It's undoubtedly been another very demanding year for the Company but one which I'm really proud of, especially the way everyone has worked together to overcome a number of significant challenges.

Firstly, we experienced record temperatures in the summer, leading to a drought across the region, but did not lead to us putting in any temporary use bans. This was not the case in many areas of the South East and is testament to the resilience we have built up in the business. It was a combined effort from both the hard work our team did to keep the taps flowing and fix leaks, as well as our customers' support to reduce the water they used.

Then we experienced quite exceptional winter conditions with freezing temperatures quickly followed by a thaw. This tested the resilience of our pipes but also showed the effectiveness of our smart network as we were able to provide an uninterrupted supply to our customers throughout the period. Again, this is something other water companies in the region struggled with.

It has been well documented that our shareholders have engaged financial advisors to undertake a strategic review of the Group business. External advisors have been appointed to look at the entire East Surrey Holdings portfolio, including SES Water. Whilst the strategic review is ongoing, our focus remains on delivering for our customers, our communities and our people.

Alongside managing our business on a day-to-day basis, we are also setting out an ambitious plan for the future. We must ensure that we always provide an affordable, reliable, and sustainable supply of high-quality water for all our customers. Making sure we have an ambitious Business Plan for the future is vital. The work we are undertaking for both PR24 and our Long-Term Delivery Strategy sets out our ambition for the next 25 years and is inspired by a renewed sense of purpose to further deliver for our customers.

Despite everything we've had to navigate this year, we've continued to provide high-quality water throughout and I'm delighted to see that early results show we're one of the top ranked companies in terms of water quality.

Of course, there is still more we can do to reduce our overall leakage, but we're one of the leading companies for our leakage performance and that is in no small part due to the investment we have made in our smart network – helping us to find and fix leaks in near real time.

So overall a good first year as Chair and I do always like a challenge!

Q. What are some of the highlights and challenges the Company has achieved in the past 12 months?

A. I think the avoidance of any temporary use bans throughout the summer was a standout achievement for the Company, certainly from an operational standpoint. I'm sure our customers were pleased we did not have to put in place a restriction on their water use.

I've also been really impressed by the work the team has been doing this year on our Long-Term Delivery Strategy, which has been championed by Ofwat. The Strategy is not just looking out over the next five years, but much further ahead and takes into account how we will navigate key areas such as climate change and population growth. By looking far enough ahead, we can plan our investments carefully and make sure we are as well prepared as possible.

It was great to see us win the Utility Week Innovation Award for our smart network and well-deserved recognition from the industry for the diligence of our team working to fix leaks as quickly as possible. The award win also shows our ability as a smaller water company to be agile and move with speed to deploy industry leading technology. But we know there is always more to do, and I know the team will keep pushing forward with this technology to help drive down leakage even further.

In terms of challenges, I think the main one is being resilient enough to prepare for, and withstand, more frequently occurring adverse weather patterns. These extremes have directly led to some of the challenges the industry has seen. So, it's more about how well positioned you are entering a challenging weather period, not necessarily what you do in the period itself. If you haven't got a resilient system, then all you can do is respond to drought conditions, rather than proactively prepare for them.

And finally, I'd like to see us reach even more of the local community through our education programme. Our fantastic Flow Zone education centre at Bough Beech Reservoir already attracts thousands of pupils and adults each year and it's never been more important to educate the next generation about the importance of saving water. If we truly want to get on top of water consumption, then children have a huge role to play in taking these messages back to their parents and family.

In addition, the current economic climate has proved to be a challenge for our business in the last year. High levels of inflation have put pressure on our supply chain costs (such as the cost of chemicals used in our water treatment processes). Combined with significant levels of activity to continue to provide our customers with high-quality water each and every day, our operating costs for the year have increased from prior year. In addition, higher inflation has substantially increased our financing costs with respect to the large index-linked bond we hold. Further detail on these financial challenges is provided in the Financial review on pages 56 to 60, and a key focus for the upcoming year is ensuring we implement resilient financing and we are as efficient as possible with our operational and capital expenditure while still delivering our performance commitments for our customers.

Q. What would you like to see more of at SES Water?

A. I'd like to see more innovative technology being deployed, as I think we've done some great trials and we're now showing the benefits of these in how we run the operation. In particular, I'd like to see us roll out more smart meter technology into the next AMP cycle. Smart meters will provide us with the ability to better understand how our customers are using water and how much water is being leaked from the network. When we have them installed, I'd like to see us challenging ourselves to think how else we can effectively use the data they provide. How can we use smart meter data to not only show us when there's an issue but also use it to get ahead of potential issues before they happen? I think that's a really exciting place to get to.

Q. What other areas do we need to focus on in the next 12 months?

A. I'm proud of how the Company has provided financial support for customers struggling to pay their bills, which is even more important given the cost of living pressures in the past 12 months. It's important we keep up this support in the year ahead and make sure our customers know we are here to help them. We have some really supportive schemes in place under our 'Here For You' programme and we've heard directly from some of our customers that these have helped make a difference to them.

Our support for customers doesn't just stop at financial aid. We've successfully implemented our first, but not last, data share agreement, which means we are now exchanging Priority Service Register customer data with UK Power Networks. We have also been training our employees on how to better understand the needs of customers with conditions such as dementia and autism, so we can all better deliver a more inclusive service.

It's also important we keep up the right level of support for our employees, who we have helped through wellbeing and financial support packages across the year. I'm also very aware of how busy workloads are right across the business, particularly for those who are in operational roles and those involved with delivering PR24 development and planning for the next five years. While this is a significant piece of work, we of course also need to maintain focus on delivering great-quality water for our customers.

I'd also like to see us continue the momentum and great strides we've made with our environmental commitments. We're leading the way with Biodiversity Benchmark Awards at two of our sites and I'd like to see this continue. When I visit the treatment works sites, I can see the benefits of this biodiversity, not just the obvious ones for the environment but also for our employees' wellbeing. Having nature on their doorstep is something they enjoy and can positively affect mental health.

Dave Shemmans
Chair
14 July 2023

Chief Executive Officer's statement

Focused on delivering for our customers and communities

Scan the code
to watch the video

"We have continued to provide financial support for customers through our 'Here For You' programme and have focused on ensuring that support reaches those who need it the most."

Ian Cain
Chief Executive Officer

During the last 12 months, the world around us has continued to face significant challenges. The economic downturn, increases in inflation, and the war in Ukraine have all had a significant impact. Our business has not been immune from these challenges, and they come at a time when the water industry is addressing a number of negative perceptions, including summer hosepipe bans, sewage concerns and supply interruptions.

During the past year, the industry has been rightly scrutinised by the Government and our regulator due to the ongoing sewage discharge investigation. While we are a water-only company, the issue affects the reputation of the whole sector, and we understand why this has angered so many people. We remain in full compliance with all our water abstraction and discharge licences and are strongly committed to protecting our environment, both now and in the future.

Personally, I feel there is more we can do at an industry level to make sure we are all joined up and acting as one connected infrastructure, so that the benefits are felt for years to come. As a Board and as a leadership team, it is our responsibility to collaborate with employees across other water companies and continue to play an active role within groups such as Water Resources South East (WRSE), which is an alliance of the six water only companies that cover the South East region of England.

Our shareholders have engaged financial advisors to undertake a strategic review of the business. This type of review is not uncommon and is regularly undertaken by shareholders. Whatever the outcome, our focus remains on delivering for our customers, communities, environment and people.

The current economic climate has proved to be a challenge for our business in the last year with high levels of inflation increasing our supply chain and financing costs, and, combined with higher levels of activity across our network to deliver for our customers, our profitability has decreased compared to prior year. Further detail on these financial challenges is provided in the Financial review on pages 56 to 60, including how we have maintained our financial resilience in such challenging economic circumstances.

Whilst operational performance remained strong throughout the full year to 31 March 2023, 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 economy and the increased levels of uncertainty in the context of the shareholders' strategic review.

Cost of living: Fair prices and help when you need it

Most customers do not normally struggle to pay their bill, but understandably this year, with cost of living increases, we've seen an increased focus on affordability across our customer base.

We don't want any of our customers to worry about paying their water bill, which is why we're continuing to provide 'Here For You', our financial support programme, which includes: 'Breathing Space', a payment pause scheme for people struggling financially, WaterSure, a capped tariff for eligible customers, and Water Support, a 50% reduction on some bills.

Read more in our Performance review on **page 35**

Despite these challenges, I'm pleased we've continued to deliver on our performance commitments, while continuing to provide a resilient, service, of the highest quality.

Undoubtedly the biggest short-term challenge for many of our customers is the cost of living crisis, which unfortunately looks set to continue for some time.

We have continued to provide financial support for customers through our 'Here For You' programme and have focused on ensuring that our support reaches those who need it the most. It's pleasing to see that we are still meeting our commitment to support the number of people we said we would in our Business Plan from an affordability perspective.

We're also working with other local organisations to expand our reach and remove the barriers to access this support. Furthermore, we've provided training to all our advisors to help them identify where customers may be struggling financially and proactively offer applicable support schemes and affordable payment options.

Thanks to improvements we've made in the way we process data, we now have a deeper understanding of our community and the people within it. We've therefore been able to identify more opportunities where we can help our customers. A good example of this is the data sharing initiative that we've entered into with other water companies and energy networks, ensuring that it's easier for customers to access the help they need.

Chief Executive Officer's statement continued

We are really proud to have again delivered against our leakage target. This has been challenging for every water company in our region, especially in a year where we've been impacted by drought and, due primarily to weather conditions, significantly more bursts in our network.

While we've thankfully not had many supply interruptions in the past year, there's no doubt the level of bursts we've seen has been in excess of what we would normally expect. We have worked extremely hard to minimise the impact for our customers. The combination of the investment we've made in our intelligent network, our early alert systems and the skill of our operational teams to manage them, has been significant in addressing this issue. Our work in this area was recognised at an industry level when we picked up the Innovation Award at the annual Utility Week Awards for our fully smart network – an achievement which we are extremely proud of.

By adopting new ways of working, we now have quicker ways of responding across the business. In particular, we've seen a notable improvement in how we manage our customers' bills since we introduced a new billing system last year. As a result, I was pleased to see the cycle of annual billing for 2023/24 was a lot smoother and more accurate across the board, which is of course better for our customers and has led to fewer billing queries coming into us. I am proud of the fact that we have also delivered our most consistent telephone answering performance in three years, and helped our debt collection by establishing a more commercial and targeted approach to collections.

From a commercial viewpoint, and in this tough financial landscape, we must make sure we are operating as efficiently as we can and getting value back from every investment we make. A good example of this is the roll-out of our new 'MyAccount' online billing portal, where customers can easily self-serve and manage their bills. By making assets like this work harder for us, we'll be in a better position to deliver on the promises we have made to our customers, all the while achieving the stretching targets our regulator has set us.

To have met these commitments against the backdrop of financial challenges and the supply chain issues we are experiencing is a testament to the teams across SES Water and, I feel, shows all the signs of a thoughtful, ambitious, and progressive business.

All of the work we do is consistently scrutinised and challenged by both our Environmental Scrutiny Panel (ESP) and our Customer Scrutiny Panel (CSP). Both groups play a key role in monitoring our performance and challenging our progress on improvement plans. We welcome their constructive feedback, and I would like to thank the members on both panels for their continued support.

In addition, we have continued to listen to our customers. Their feedback comes from both our day-to-day interactions with them, as well as undertaking more detailed research to help us understand their expectations. We've set up new forums to get a better understanding of the needs of both our vulnerable customers and our future bill payers. In addition, over the course of this year, we regularly attended community events, have recorded more than 1,100 customer conversations, and are continuously working to identify new partnerships to include all parts of our community.

Alongside our customers, our people are our biggest priority and, as a business, we've responded responsibly by providing easily accessible mental health and wellbeing support.

We also ran six events to formally launch our company purpose to our people. This brought to life our purpose – to harness the potential of water to enhance nature and improve lives – setting out what it means to work for a company like this and the bold goals we have for the future.

As we look ahead, we want to be a company that our customers trust – a business that is known for always doing the right thing. We have really ambitious goals to reduce per capita consumption (PCC), which relies heavily on our ability to change customer behaviour. We want to bring our customers with us on this journey, creating water conscious consumers who will work with us to willingly reduce their water footprint.

"I'm tremendously proud to work for a business which tirelessly puts its customers first each and every day. Our strong ties with the local community have been built over years of hard work and determination."

We want to be the water company that is renowned for service excellence, the company that not only meets but exceeds our customers' expectations – getting things right first time, all of the time. We want to build a relationship with customers that runs through their entire experience with us, ensuring that every interaction they have with us delivers the same consistent level of high service, that they will come to expect.

As we start to build on our long-term delivery plan for the next 25 years, we're doing so on a resilient platform which puts us in a strong position. I'm looking forward to getting a plan across the line which is both realistic and ambitious in equal measure and one which is exciting in terms of what this company can achieve in the future.

Overall, I'm tremendously proud to work for a business which tirelessly puts its customers first each and every day. Our strong ties with the local community have been built over years of hard work and determination, and I feel privileged to be working with such an exceptional team to deliver the next chapter of the Company's history.

Ian Cain
Chief Executive Officer
14 July 2023

High-quality water all day, every day

We pride ourselves on producing high-quality water and for all water companies this is measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index. Our sampling programme includes testing the quality at treatment works, water storage reservoirs and towers, and visiting customer properties to test the quality of water at their kitchen taps.

Read more in our Performance review on **page 34**

Our markets and emerging drivers

Market review

Supporting customers, wider society and the environment

The past year has been dominated by the rising cost of living, with inflation driving up the price of many everyday goods and services, and energy prices going up significantly – all putting increasing pressure on many household and business budgets.

At the same time, the scrutiny on water companies has grown, in terms of both water supply and wastewater issues. This has involved an ongoing focus on how well companies are performing and how they can provide greater public value moving forward, including through increased innovation.

Linked to this debate has been the continued push to not only protect, but also improve, the environment, in line with the Government's long-term ambition to 'leave the environment in a better state than we found it'.

Market driver

A helping hand for our customers (affordability)

What's happened

- Households and businesses have been dealing with unprecedented increases in the cost of living, driven by growing inflation, which, in turn, stems from the soaring cost of energy. There's been greater demand for oil and gas, as life got back to normal after the COVID-19 pandemic. At the same time, the war in Ukraine has meant less was available from Russia, putting further pressure on prices.

"Water is essential for all of us, so no-one should be worried about being able to afford their bill."

Emma Clancy
CEO, Consumer Council for Water (CCW)

What we've done

- We've worked hard to carry on providing our customers with an extensive range of financial support through our 'Here For You' payment support schemes. This includes Breathing Space, where bill payments are paused, as well as Water Support, which gives customers a 50% reduction on their bill.
- Through our Community Support team, each month, we visit 140 of our customers with particular needs – ranging from them having a health condition, to financial problems. This is so we can best support the members of our community who need our help most.
- To increase how many people we can reach with our support and better target our help, we have been developing partnerships with other key organisations in our area, such as charities, housing associations, community hubs and food banks.
- Working with our partners, our Community Support team take part in around 20 community events each month. This means we can meet and help many more customers.
- Raising awareness among our customers of the support we can provide, and making it easier for them to take advantage of it, has been a continued key focus for us. For example, we've made our online content more accessible. Plus, we've rolled out a new simpler application form for our support schemes.
- We donated a further £28,000 to five local charities through our partnership with the Community Foundation for Surrey. These included services which support young people from disadvantaged backgrounds and young adults with disabilities. Furthermore, we've donated to and raised money for a number of other local good causes and food banks, in light of the cost of living crisis.
- We continue to fit meters for our customers to help reduce the amount of water they use, which, for the majority, saves money on their bills.
- We've provided training for our Customer Care teams to uncover customer needs so we can offer tailored support and affordable payment plans, including to those customers in debt. Furthermore, we're using customer data to help us better identify communities which need additional support.

Market driver

Developing our future plans, to deliver more for people and nature

What's happened

- Water industry regulator Ofwat published its final methodology for the next five-yearly Price Review, known as PR24, as well as future price reviews. This is centred on driving substantial improvement in the sector for the long term, with water companies required to step up and deliver more for customers and the environment.
- The methodology puts the views of customers at the heart of the price review process, with each company conducting robust customer research and holding at least two public meetings in 2023.
- It also includes requirements around new environmental commitments, delivering excellent customer service and ensuring there are sufficient water resources in the decades ahead. Furthermore, it sets out clear expectations on companies' policies around shareholder dividends and executive pay, and details incentives for companies to be more efficient and innovative.

"We are looking to companies to respond to the urgent need for change and set out ambitious plans to improve outcomes for customers and the environment."

David Black
CEO, Ofwat

What we've done

- We developed our draft Long-Term Delivery Strategy, in line with Ofwat's guidance in this area, setting out our priorities and level of ambition for the next 25 years. We published this in October 2022 for people's feedback, to help shape our finalised strategy. The strategy is based on our work to update our overall company purpose and vision carried out in 2021.
- Ofwat is consulting on a new customer focused licence condition, which it intends to implement from early 2024. We've engaged actively with Ofwat on the development of the licence condition and are working to make sure our customer service offering and support for vulnerable customers aligns to it.
- Based on our developing strategy, we have also been working on our draft Business Plan for 2025-30 due to be submitted in October 2023, with a Final Determination in December 2024. This includes conducting detailed research with our customers to help shape our proposals for the coming five years. We presented our draft plan to customers and stakeholders at our 'Your water, your say' online open challenge meeting in April 2023, allowing people to learn about our plan and ask questions about it. A further 'Your water, your say' session will take place in the autumn, after we have submitted our plan to the regulator Ofwat.

Market review continued

Market driver

Helping nature thrive

What's happened

- The Government published legally binding targets to protect the environment, clean up air and rivers, and boost nature. These sit at the heart of the Environment Act, which was passed by Parliament in 2021, and include a goal on 'Clean and plentiful water'. In turn, this incorporates the roll-out of water efficiency labelling across water-using appliances by 2025, something it's estimated will save 1.2 billion litres of water a day. Water companies will also be required to deliver a 50% reduction in leakage by 2050.
- In line with the ambition of the Environment Act, the drive to bring down how much water is taken, or abstracted, from the environment has continued. The first generation of draft regional water resources plans were published for consultation in early 2023. At their heart is the Government's goal of ending 'damaging abstraction' from rivers and groundwater sources. The SES Water area is covered by the proposed plan for the South East of England, which sets out how sensitive water sources could be protected by water companies further reducing their reliance on them (see below for more).
- Stormwater releases from sewers, wastewater treatment works complying with the required laws and standards, and how to make sure there's enough water for people and nature in the future. These are all issues that have been part of the continuing intense scrutiny of the water industry, by the public, media and politicians, helping shape decisions about future investment.

"We are committed to leaving our natural world in a better state for future generations, and we are laying the foundations that will help deliver on this commitment."

Thérèse Coffey
Secretary of State for Environment, Food and Rural Affairs

What we've done

- Close liaison with our Environmental Scrutiny Panel has continued, working with, and listening to, the panel members, who are advising, scrutinising and challenging the development of our environmental vision and how we implement it across the Company.
- We've retained our Wildlife Trusts' Biodiversity Benchmark Award at our Elmer site for two years in a row, and now also hold one for our Fetcham Springs site. In addition, we're working towards achieving a third Biodiversity Benchmark Award for our Bough Beech Water Treatment Works (WTW) in 2024.
- We've been progressing our route map to achieving net zero operational carbon emissions by 2030, in line with the industry's Public Interest Commitment made by all English water companies. The route map was published in 2021 and focuses on managing demand for water so that we need and use less of it and, in turn, emit less carbon. Our aim is to reduce annual emissions by 2,400 tonnes by the end of the decade.
- We continue to be fully compliant with our environmental licences and consents, and have had no category 1 or category 2 pollution incidents now for more than 15 years.
- None of our customers were affected by hosepipe bans in 2022, despite low winter rainfall and a hot, dry summer last year. As a result of the weather situation, a number of other water companies in the UK, including our neighbouring companies in the South East, did bring in bans (officially known as Temporary Use Bans). This was to help protect water resources and keep taps and rivers flowing. Such restrictions on customers' water use were not necessary in our area. Our water resources were significantly below average throughout the drought, and we did activate our Drought Plan. However, as our water resources are predominantly from underground aquifers, we don't rely on summer rainfall to support our supplies.
- As part of this, we communicated with our customers, via a range of different channels, to ask them to help us save water during this critical period. We also took a number of other actions, including around finding and fixing more leaks. However, we did not meet the trigger level required to introduce a hosepipe ban.
- We have continued to contribute to the development of the new water resources plan for our region, as part of WRSE, the alliance of the six water companies that serve the South East of England. The draft regional plan, which was published for consultation in early 2023, is designed to secure resilient water supplies for the future in the face of population growth and climate change and while delivering long-term environmental improvement. This includes reducing damaging abstractions from sensitive chalk streams – for example, through investment to reduce leakage and help customers use water more efficiently and calling for further Government action to reduce water use across society, such as through improved building standards. For us as a company, we may need to reduce abstraction from groundwater sources (that feed local chalk streams) by up to 31 million litres a day by 2050 – that's enough to supply more than 100,000 homes. The level and timings of any future abstraction reductions will be determined by investigations we will carry out in coming years.
- We've welcomed more than 2,800 adults and children to our Flow Zone education centre at our Bough Beech Reservoir site this year, helping them learn about the world of water and how they can all save more water. We partnered with both Run Gatwick and Run Reigate, as the events' official water provider, and helped avoid 48,000 single-use plastic bottles from being used.

Market driver

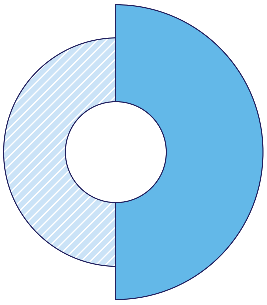
Making a step change through innovation

What's happened

- Ofwat announced its plans for the next phase of its Innovation Fund. This includes a new 'open access' competition which is making £4m available to innovators from any sector – from financial technology firms, to manufacturers, community groups or local government – allowing them to bid for up to £500,000 for 'game-changing' ideas for the water sector.
- Ofwat's next Water Breakthrough Challenge was also launched, with a total of £38m available for innovative initiatives led by water companies and their partners. A further £5m in grants was allocated from Ofwat's Innovation Fund, helping to progress new technology and collaboration to address challenges such as preventing leaks from water pipes and improving water quality.
- Spring, the innovation centre of excellence for the water sector, celebrated its first anniversary and its work to enable much greater innovation and collaboration across the water industry, looking at challenges like digitalisation and reaching net zero carbon.
- Water companies in England published their landmark leakage roadmap, setting out how they plan to reduce water leaks by 50% by 2050. This is the latest step in the water industry's Public Interest Commitment, building on its ongoing work to deliver a net zero carbon water supply for customers by the end of the decade.

"We're broadening the opportunity to innovators in any industry that can make a difference to improving the water system for all of us."

John Russell
Ofwat Senior Director for Strategy, Finance and Infrastructure



50%
Reduction in water leaks by 2050

What we've done

- We won a prestigious national innovation award, at the annual Utility Week awards, for our smart water supply network, which is enabling us to detect and fix leaks faster than ever before, significantly reducing the water wasted through leaks and bursts, and protecting customers' supplies.
- We are currently participating in six of Ofwat's Innovation Fund projects, run by other water companies, and in addition we've successfully secured our own innovation funding from Ofwat to develop a universal access point for water.
- 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.
- More broadly, we remain committed to helping drive innovation across the water sector, such as by sharing our learning and expertise around our smart network. Jeremy Heath, our Innovation Manager, has continued in his role as one of the co-leads for the 'Delivering resilient infrastructure systems' workstream at Spring, the water industry's innovation centre of excellence. Furthermore, Paul Kerr, our Chief Financial Officer, remains a member of the UK Water Industry Research (UKWIR) Board, which is responsible for facilitating the shaping of the water industry's research agenda and developing the research programme.

Business model

Creating long-term value

Our purpose

Harnessing the potential of water to enhance nature and improve lives.

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

Surrey Wildlife Trust Business Partner 2022

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

INVESTORS IN PEOPLE We invest in people Silver

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

The Great British School Trip HYUNDAI Proud venue supporter

We've partnered with The Great British School Trip to help fund travel costs for schools to attend our Flow Zone education centre.

Inputs

Water resources
Managing our water resources through our forward-looking, 50-year Water Resources Management Plan (WRMP) and protecting and enhancing the environment.

Employees
Developing and motivating our 345 employees, incentivising them to deliver a high-quality customer experience at every touchpoint with consumers of our services.

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

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

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

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

Outcomes

The value we share between our stakeholders

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

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

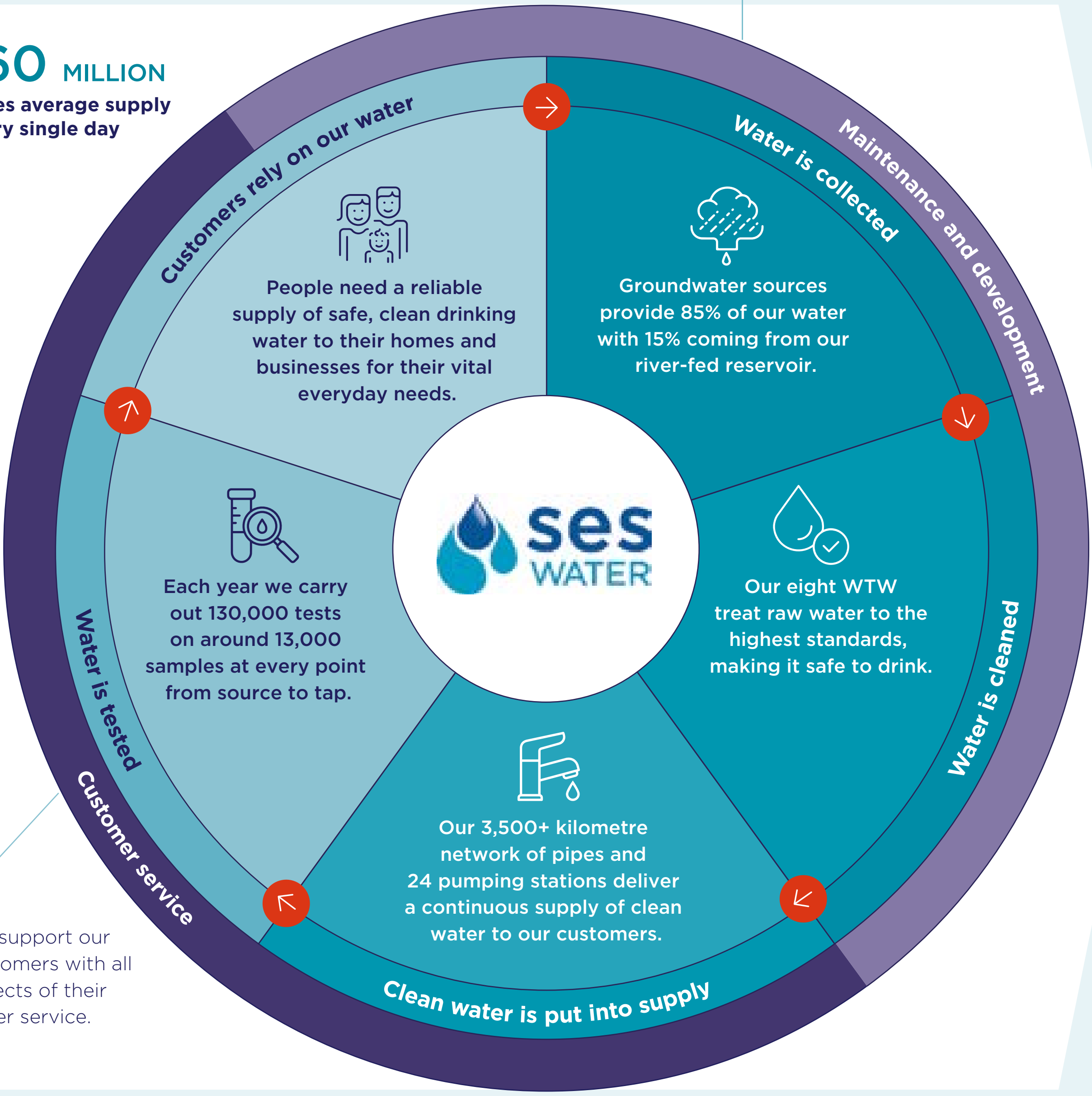
Playing our part in achieving the sector's Public Interest Commitments:

x3
Triple the rate of sector-wide leakage reduction by 2030.

NET ZERO
Achieve net zero operational carbon emissions for the sector by 2030.

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

160 MILLION
Litres average supply every single day



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

Communities
We have provided grants to local causes through our community fund as well as delivering an industry leading education programme for more schools, young people, businesses and community groups.

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

Local authorities
We are planning ahead for a 50% growth in the number of people living in our area by 2080 and working with others to limit the disruption of our essential work in local areas.

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

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

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

Our purpose and strategy in action

Our purpose:

At SES Water, our purpose is to **harness the potential of water to enhance nature and improve lives.** 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 support the communities we serve, whilst protecting and enhancing our local environment.

Our purpose influences everything we do, underpinning what we do and how we do it, both now and in the future. Our Company culture is built around our purpose, enabling us to achieve our goals through our people.

Our purpose will be delivered through decisive action. It puts our customers and the environment at the heart of our decision-making, ensuring we create solutions for better lives. We will continue to invest to deliver an excellent service that's free from interruptions and leaks.

We will bring benefits to the communities we serve, from being a diverse and inclusive place to work to eradicating water poverty. We will inspire the next generation through our education programme, and we will ensure we enhance our local environment and the natural resources we depend on.

And all of this will be achieved whilst continuing to do what we've always done – delivering an essential, resilient service, of the highest quality, all day, every day.

Our long-term goals:

- Provide our customers with high-quality water from sustainable sources.
- Help customers reduce their water footprint and charge a fair, affordable price for what they use.
- Deliver a resilient water supply from source to tap and minimise wastage.
- Improve the environment and have a positive impact on our local area.

Our strategy in action this year:

Across September and October 2022, we held six events, reaching the vast majority of our employees and supply chain partners. These events were designed to provide our people with a thorough understanding of our purpose and how they can help us achieve it through the work they do. In addition, throughout 2022/23, we have brought our purpose to life through the following actions.

Enhancing nature:

- Reduced leaks by 18% and created the UK's first intelligent water network.
- Removed 48,000 plastic bottles from Run Reigate and Run Gatwick by supplying water.
- Reduced our carbon impact and increased the number of electric vehicles in our fleet.

£32,132
Donated to local charities

19,476
Vulnerable customers helped

2,800
Teachers and pupils welcomed to Flow Zone

- Achieved two Wildlife Trusts' Biodiversity Benchmark Awards.
- Our water quality levels are the best in the industry.
- Undertaken work across our catchments to improve water quality from the source.
- Developing our relationships with landowners in preparation for more ambitious catchment and nature-based work.
- Encouraging local community groups to improve their water efficiency by providing funding through our Every Drop Counts Community Fund.

Improving lives:

- Helped 19,476 vulnerable customers via Water Support Schemes.
- Launched a new, online portal for our customers, allowing them to manage their account whenever and wherever they want.
- Welcomed more than 2,800 teachers and pupils to Flow Zone (our Education Centre).
- We've joined The Great British School Trip, which allows schools to apply for funding to enable more children to take part in school trips.
- Won a silver RoSPA for Health & Safety.
- Donated £28,000 to five local charities through our partnership with the Community Foundation for Surrey.
- Over 60 SES Water employees helped to build a water efficient sensory garden at The Orpheus Centre, a local facility that enables young, disabled students to live fulfilling lives.
- With the support of our Equality, Diversity and Inclusion Committee, we've continued to work towards creating a truly diverse and inclusive place to work. In the last 12 months, we've celebrated events including National Inclusion Week, Black History Month, International Women's Day, and Pride.
- Educating employees about conditions such as dementia, autism and mental health so they are better able to help our customers and members of their own families/communities.

Our pledges

Introducing our five pledges

Our Business Plan for 2020 to 2025 has one simple objective – to deliver more of what matters to our customers. It was built around our customers' priorities through an extensive engagement programme and led us to making five pledges to improve our service.

We've considered how the world around us is changing and made sure our plan is fit for the future. From climate change and population growth to smart technology – our pledges set out how we aim to transform our service and how we deliver it to our customers.

By delivering on our pledges, we'll not only provide a great service, but we'll contribute more to society. However, successful delivery of our plan is not entirely in our hands. Water is a precious resource and we live in an area where it's coming under increasing pressure because of the changing climate and higher demand. We all need to use water wisely and we're committed to helping our customers do this by providing information, support and incentives.


5 years,
5 pledges
1
High-quality water all day, every day
2
Fair prices and help when you need it
3
A service that is fit now and for the future
4
Excellent service, whenever and however you need it
5
Support a thriving environment we can all rely upon

Our pledges in action

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

Our pledge in action

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

Highlights

- For 2022/23, we reported a water quality risk index score of 0.01, which places us as one of the top-ranking companies for water quality in the Drinking Water Inspectorate's 2023 report.

- We've maintained our excellent performance for minimising the number of customers contacting us about the taste, smell or appearance of their water and continue to be significantly better than industry average.

2023: Target met/not met

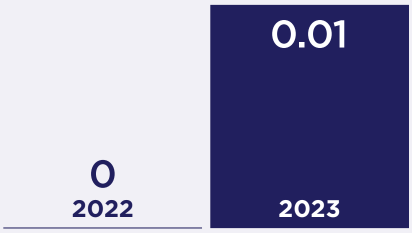
Target met: Target not met:

KPIs

Water quality – DWI Compliance Risk Index (CRI) score

Why do we measure this?
All water companies in the UK are measured against the DWI's CRI to ensure our water is of the highest quality.

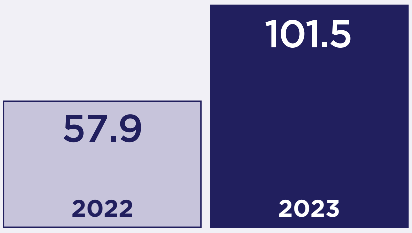
Performance
We've determined our CRI score to be 0.01, which the DWI has confirmed as one of the top-ranking company scores in its July 2023 report.



Mains repairs number/1,000 kilometres

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

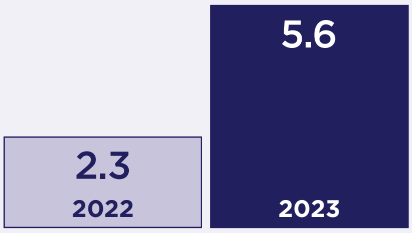
Performance
The level of bursts seen over the year increased significantly – initially in the summer during the drought, and later in December as a result of the freeze/thaw – and we will receive a significant financial penalty from Ofwat.



Water softening number of periods exceeding hardness target (mg/l)

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

Performance
A number of operational outages, alongside chemicals supply chain disruption and periods of very high demand, resulted in a number of periods where softening did not meet its required target. We will again receive a financial penalty from Ofwat for the year.



Supply interruptions hours:minutes:seconds/property/year

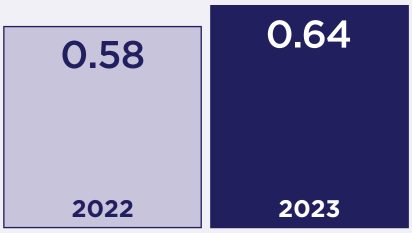
Why do we measure this?
Although some planned interruptions to supply are unavoidable, we are always working to improve the long-term resilience of our supply network.

Performance
Our performance this year continues to be excellent, again beating our target, despite the challenges posed by the drought and December freeze/thaw, and we will again receive a financial reward from Ofwat.

Taste, odour and discolouration contacts number per 1,000 customers

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

Performance
We recorded 0.64 contacts per 1,000 customers this year, which is above our target limit of 0.50, so we will receive a financial penalty from Ofwat, but our performance continues to be significantly better than the industry average.



Our pledges in action

2

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

Our pledge in action

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

Highlights

- Our average household bill for 2022/23 equated to around 60 pence a day.
- We know our customers are being impacted by the rise in cost of living and have continued to provide financial support to them through our 'Here For You' payment support schemes.
- We also regularly visit vulnerable customers to make sure the members of the community who need it most benefit from our support. This includes contact over telephone and attending food banks.
- 19,476 customers are benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. This means we are surpassing the target we set ourselves for year four of this five-year Business Plan period.
- 7% of our customers are on our Priority Services Register, which provides extra support to those who have health, access or communication needs.
- More than 80% of our customers think the extra services we offer are helpful.
- We reduced the volume of connected properties with no billing account to just 2.4% on average across the year, meaning more customers are paying for the water they are using.

2023: Target met/not met

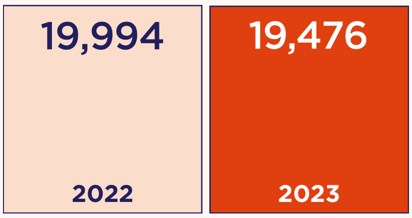
Target met: ✓ Target not met: ✗

KPIs

Supporting customers in financial hardship number ✓

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

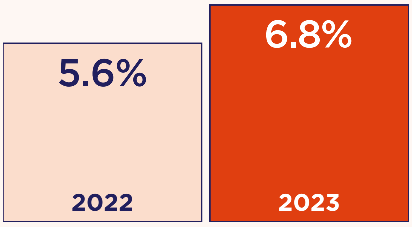
Performance
We again exceeded our target for the number of customers benefitting from our Water Support Scheme, although the overall number dropped as customers who are no longer eligible were removed from the tariff.



Customers on our Priority Services Register % ✓

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

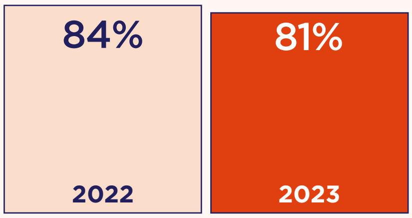
Performance
7% of customers are on the Register, well ahead of our target of 5.3% and putting us on track already to deliver our target for the new financial year.



Vulnerable support scheme helpfulness % ✓

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

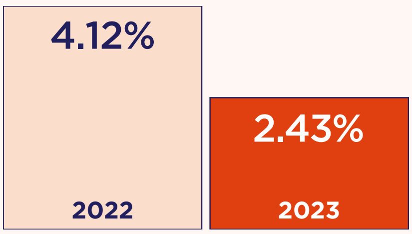
Performance
We exceeded our target with 81% of people who receive the services agreeing that they are helpful.



Void properties % ✓

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

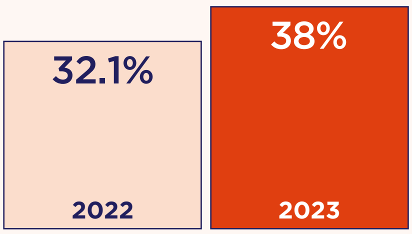
Performance
We achieved this target and will receive a financial incentive from Ofwat for this commitment for the first time.



Vulnerable support scheme awareness % ✗

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

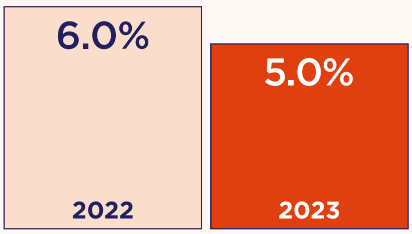
Performance
We did not achieve this target but continue to work hard on promoting scheme awareness and delivered a 5.9 percentage point increase on last year.



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

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

Performance
Just 5% of customers questioned told us they believe their bill is not good value, which is better than our target of 7%.



Our pledges in action

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

Our pledge in action

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

Highlights

- We have stayed at or below the maximum allowed level of leakage every year since the target was first set more than 20 years ago and have once again met our leakage reduction target, which is industry leading.

- We have won a Utility Week Award for Innovation, recognising our investment in our 'smart' network technology to detect and fix leaks quicker.

- We also won the Asset Management Initiative of the Year Award and was shortlisted for Water Company of the Year at the Water Industry Awards in June.

- We have laid 13 kilometres of new main pipe in the past year and progressed a number of key mains replacement schemes across our supply area. As a result, we are on track to meet our target for the number of mains repairs in the remaining year of the AMP.

- Key mains replacement schemes have been completed this year across Edenbridge, Brockham and Redhill. We've also completed a new main from Langley Park to How Green. This means we're nearing completion of a 15-year resilience programme we've been progressing since 2010. By 2025, every property across our region will be supplied by more than one treatment works if, due to operational challenges, this is needed.

2023: Target met/not met

Target met: ✓ Target not met: ✗

KPIs

Leakage reduction
Ml/day ✓

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

Performance
While higher than last year, due to the extremes of weather experienced, our overall leakage reduction performance continues to meet our required three-year target, and we remain on track to deliver the 15% reduction required by 2025.*

2022	2023
21.1	22.8

Risk of severe restrictions in a drought
% customers ✓

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

Performance
Despite most of England being declared in drought last year, we did not impose any restrictions on the use of water during the year.

2022	2023
0.0	0.0

Unplanned outages at treatment works
% ✓

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

Performance
Our ongoing focus on operating, maintaining and investing in our WTW continues to secure the delivery of our unplanned outage target.

2022	2023
1.36%	0.93%

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

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

Performance
As a result of the culmination of five resilience projects delivering over the last year, more than 180,000 further customers now benefit from being connected to two treatment works.

2022	2023
57%	81%

* We are continuing to conduct work – overseen by Ofwat – to ensure our water balance reporting is fully compliant with all regulatory guidelines. Whilst we are confident in the accuracy of our leakage reporting, we have agreed with Ofwat that we will not seek to apply for any outperformance payments associated with our leakage performance until this work is concluded.

Our pledges in action

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

Our pledge in action

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

Highlights

- We achieved our highest ever C-MeX ranking of 10th for the period January to March 2023. For the full year, we finished 13th, which is two places up from last year.
- We have launched MyAccount, an online platform accessed via our website, so customers can more easily pay their bills, manage Direct Debits, see how much water they're using and more. Since launch, there has been more than 56,000 registrations to the platform.
- We have recently improved our dedicated service for bereaved customers, provided our field teams with braille passes and offered Dementia Friends training to our whole workforce.
- We've increased the number of employees in our Customer Care team and now answer over 95% of calls within 30 seconds.
- We've re-designed our complaints journey and introduced new Root Cause Analysis reporting that is enabling us to target and remove the drivers of customer dissatisfaction.
- We've developed a new Customer Academy to give our employees all the development and support they need to deliver excellent service to our customers.

2023: Target met/not met

Target met: ✓ Target not met: ✗

KPIs

C-MeX (industry measure of customer satisfaction) score

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

Performance
Although we've improved our position, unfortunately we did not meet our target of customers ranking us in the upper quartile of industry performance and will again receive a financial penalty from Ofwat for this commitment.

2022	2023
76.35	76.03

First contact resolution %

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

Performance
We increased our performance by 4 percentage points from last year and achieved our target of 85% of contacts being resolved first time.

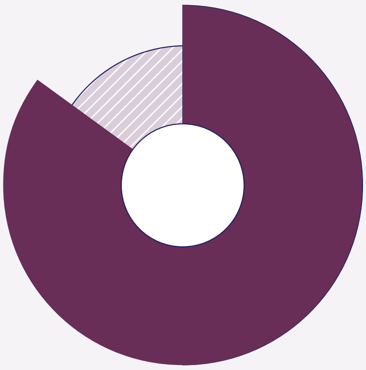
2022	2023
81.1%	85.1%

D-MeX (industry measure of developer satisfaction) score

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

Performance
For D-MeX our overall position of 12th is improved on last year. We are responding more quickly to developer applications, keeping them updated on progress and better tailor our services to meet their needs.

2022	2023
77.73	84.91



85.1%
Number of customer contacts resolved first time

Our pledges in action

5

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

Our pledge in action

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

Highlights

- We retained the Wildlife Trusts' Biodiversity Benchmark Award for the third year at our Elmer Treatment Works and the second year at Fetcham Springs in Leatherhead. We are the only water company to currently hold the accreditation and expect one more site to follow by 2025.
- More than two thirds of our customers are already metered and we are looking to provide meters for 90% of our customers by March 2025.
- We launched our draft Water Resources Management Plan for consultation, which looks ahead 50 years and helps us understand how much water will be available and how much we will need to supply.
- Our vehicle fleet now comprises 30% electric vehicles, with each electric car helping to save 2-3 tonnes of CO_2e per year, as well as reducing the impact on local air quality.
- We have partnered with Run Series to support both Run Gatwick and Run Reigate as the events' official water provider, avoiding more than 48,000 single-use plastic water bottles from being given out at each event.
- We've continued our work with Bore Place, a charity local to our Bough Beech site, and a number of other partners to assess opportunity to develop biodiversity net gain on a landscape scale.

2023: Target met/not met

Target met: ✓ Target not met: ✗

KPIs

Consumption
litres consumed per person per day ✗

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

Performance
Whilst slightly lower than last year, our PCC remains too high and we again fall short of our target. Recent performance in a year of extremes does provide some encouraging signs, demonstrating the benefits of our ongoing metering, water efficiency and customer engagement programmes.

2022	2023
151.5	150.8

Greenhouse gas emissions
$kgCO_2e$/megalitre ✓

Why do we measure this?
We are committed to achieving net zero operational carbon emissions by 2030.

Performance
The progression of our net zero carbon plan has seen further reductions in greenhouse gases this year through ongoing energy efficiency and switching of fleet to pure electric vehicles and heating to non-fossil fuel alternatives.

2022	2023
47	41

Abstraction Incentive Mechanism
average megalitres reduction ✓

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

Performance
We remain compliant with our AIM target, focused on reducing abstraction in chalk catchments during sensitive times of year.

2022	2023
Compliant	Compliant

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

Why do we measure this?
We are committed to improving the ecology and the quality of water in rivers through delivery of WINEP.

Performance
We continue to deliver our programme of work to the plan agreed with the Environment Agency (EA). From June 2023, the Ofwat and EA plan realign, and we will be fully compliant with this performance commitment in next year's report.

2022	2023
6	6

Pollution incidents
number of category 1 and 2 incidents ✓

Why do we measure this?
We are committed to measuring our performance against varying levels of pollution.

Performance
We continue to deliver our commitment on minimising pollutions, having not caused a category 1 or 2 pollution incident for over 15 years. We also remain in full compliance with all our environmental abstraction licences and discharge consents.

2022	2023
0	0

Land-based improvement – biodiversity
number of sites awarded benchmark ✓

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

Performance
Reaccreditation of both our benchmark sites was confirmed this year, and progress is on track to receive our third award – for Bough Beech WTW – by March 2024.

2022	2023
2	2

Performance review

Our performance

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

Water plays a vital role in all our lives and our customers rightly expect their supply to be of the highest quality and plentiful. With the rise in the cost of living, higher operational costs and extreme weather events impacting our supply area, it continues to be a challenging time for our customers, employees and suppliers. However, we remain focused on delivering what matters most to our customers. That is the aim of our Business Plan, as it was built around our customers' priorities. Delivering against our five pledges will not only improve the lives of our customers but will also enhance the environment and make sure we are adding value to our community.

Our pledges

High-quality water all day, every day

We pride ourselves on producing high-quality water and for all water companies this is measured against the DWI's Compliance Risk Index.

Our sampling programme includes testing the quality at treatment works, water storage reservoirs and towers, and visiting customer properties to test the quality of water at their kitchen taps. In 2022, we maintained our excellent water quality performance from 2021, with only one sample failure due to the presence of lead service pipework and two shown to be due to the condition of the householder's kitchen taps. **Our Compliance Risk Index score has been confirmed as one of the industry leading scores in the DWI's July 2023 report.**

We have a challenging target to minimise the number of customers who need to contact us about the taste, smell or appearance of their water. In 2022, we received 472 contacts (a rate of 0.64 per 1,000 population served) which is above our target limit of 372 contacts (or a rate of 0.50), so we will receive a financial penalty from Ofwat. Our contact numbers increased in 2022 as a result of the impact of exceptional summer demand, some challenges to our softening performance and increased data capture. While any penalty from our regulator is disappointing, we continue to be proud of the low number of contacts we receive compared with the wider industry performance as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Some planned interruptions to supply are unavoidable as we work to improve the long-term resilience of our mains network; however, our performance this year has been within our target to keep interruptions to a minimum. Following the extremes of weather seen across the UK over the last year – with record-breaking summer temperatures in July and August, and a second significant freeze/thaw event in the run up to Christmas – we have experienced materially higher levels of mains bursts over the last 12 months. While we aim to not have any burst mains, they do occur; however, the still relatively low number reflects the general good health of our network and the work that goes into maintaining it, as even with the high level of bursts over the last 12 months, our burst rate was still lower than the UK sector average in a normal year.

Around 85% of the water we supply comes from underground, and we are unique in the industry in having a legal obligation to soften the groundwater we treat and a performance commitment on the hardness of the water we distribute. We will always reduce or stop softening if it poses a risk to the quality of the water to ensure we meet the strict requirements of the Water Industry Act. Unfortunately, due to operational challenges, a number of our sites have fallen slightly short of meeting our softening performance commitment, for which we will receive a financial penalty.

Fair prices and help when you need it

Most customers do not normally struggle to pay their bill, but understandably this year, with cost of living increases, we have seen an increased focus on affordability across our customer base.

We don't want any of our customers to worry about paying their water bill, which is why we're continuing to provide 'Here For You', our financial support programme, which includes: 'Breathing Space', a payment pause scheme for people struggling financially, WaterSure, a capped tariff for eligible customers, and Water Support, a 50% reduction on some bills.

We had a target for the year-ended 31 March 2023 of 21,990 customers to be benefitting from our Water Support Scheme. At the end of March 19,476 people were on this tariff, which means we are on track to surpass the target we set ourselves for year four of this five-year Business Plan period. We will continue to make it easier for customers who need our support to access the scheme and also continue to raise awareness of the support on offer as we are currently not meeting the target for this commitment.

With 5% of customers questioned feeling their water bill is not good value for money, this is within the target limit of 7%. Our average household bill for 2022/23 equated to around 60 pence a day, with money from bills playing a crucial part in funding our ongoing investment programme.

This year we have made progress in collecting outstanding household debt and are using the interaction as an opportunity to understand more about our customers' financial circumstances. Currently, 7% of customers are on our Priority Services Register, which continues to be above target. The register provides extra support to those who have health, access or communication needs.

We have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water. The number of voids is currently 2.43% of the properties in our supply area and we have made significant progress reducing this from an average of 4.12% last year. We've achieved this by using third party data to match customer details to empty properties.

"We don't want any of our customers to worry about paying their water bill, which is why we're continuing to provide 'Here For You', our financial support programme."

Performance review continued

"Managing leakage is one of our customers' top priorities and an ever-present focus for us, too. We have one of the lowest levels in the industry."

A service that is fit now and for the future

Since 2010, we have been progressing with a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies.

This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages.

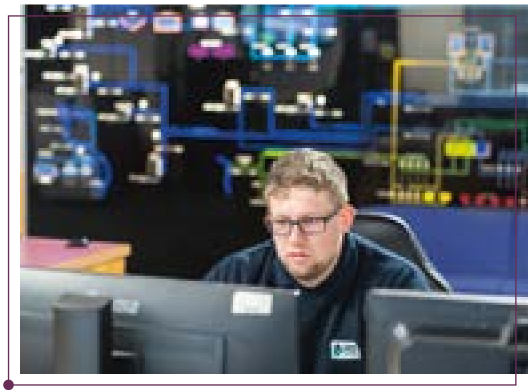
As part of this programme, we are also laying the final sections of two new strategic water mains, one in Langley Park, Sutton and the other planned later this summer – along a major A-road – the A22 in South London. **In doing so, we will conclude works to significantly improve the interconnectivity of our network by 2025 and be the first water company to achieve this.** In the meantime, we have progressed a number of targeted and key mains replacement schemes across our supply area to make sure we are able to continue to deliver a reliable supply that contributes to reducing leakage and minimises the risks of supply interruptions and the potential for resultant water quality incidents.

There have been **no restrictions** on the use of water this year. Despite drought being officially declared across the South East in the summer, we did not need to impose any temporary use bans – unlike other water companies in the region. Our water resources depend on winter rainfall to fill underground aquifers – rocks which act like a giant sponge – and these only usually fill up between October and March when there is less plant growth and evaporation. During this recharge period, we saw above average rainfall, which meant underground resources were replenished and we were in a good position to meet the demands that lie ahead in the summer.

Managing leakage is one of our customers' top priorities and an ever-present focus for us, too. We have one of the lowest levels in the industry. Our aim is to more than halve the water lost from our network and our customers' pipes by 2045. That's why we have invested in innovative technology with key partners such as Vodafone and won the Utility Week Award for Innovation. The award was in recognition of us becoming the first UK water company to roll out intelligent leakage detection technology across our entire network.

Using newly implemented software, data is sent from sensors on the pipes in our network directly to our operational teams and speeds up the response time to mitigate the impact of leaks and bursts by reducing the risk of supply interruptions to customers and volume of water lost.

Our continued work to make sure we operate, maintain and invest appropriately in our WTW has again allowed us to meet our unplanned outage target – a measure of availability and reliability of our sites. **This has once again proven its importance during the higher demand periods experienced during the heatwaves last summer.**



Excellent service, whenever and however you need it

Regardless of the reason for our customers needing to contact us and the method they use, we aim to provide an excellent, tailored resolution every single time.

We achieved our target for the number of times customers have to contact us about the same issue, with 85.1% of contacts being resolved first time against a target of 85%. We are working with all of our teams to understand how we can continue to build on this so that we are able to meet our increased target in the coming year.

C-MeX is the industry metric for measuring customer satisfaction and experience across all companies and is based on two surveys – one based on customers' experiences when they have had to contact us and the other which scores us based on their general perception of the Company.

We continue to make improvements to our overall customer service performance across a broad range of measures. For C-MeX, we came 10th in the final three months of the year, our highest position since the measure was introduced, and finished in 13th position for the full year, which is up two places from our full year performance last year. While this is still not yet where are aiming to be, we are determined to continue to improve our customers' satisfaction with our service. This includes improved complaints handling, listening to and acting on customer feedback, and reducing bill shock. Our new billing platform, Aptumo, has also contributed significantly to how we have improved the billing experience for our customers.

For D-MeX (Ofwat's developer services measure of experience), our overall position of 12th is improved on last year. As with C-MeX, we know there is much more work to be done in this area and we are taking action to respond more quickly to developer applications, keep them updated on progress and better tailor our service to meet their individual needs.

Investing in our digital contact capability is key to transforming our service to customers and this year saw us launch MyAccount, an online platform accessed via our website so customers can more easily pay their bills, manage Direct Debits, see how much water they're using, order free water saving devices, and more – all at the click of a button. **Since launch, there have been more than 56,000 registrations to the platform.**

"We continue to make improvements to our overall customer service performance across a broad range of measures."

Performance review continued

Support a thriving environment we can all rely upon

We're committed to reducing the impact of our essential service on the environment while making a positive contribution to its quality. This year we retained our Biodiversity Benchmark Awards from The Wildlife Trusts, for making our land more attractive for plants and wildlife at both Elmer WTW and at our Fetcham Springs site.

Pumping, treating and distributing millions of litres of water every single day is incredibly energy intensive, so we are doing more to limit the emissions we create. In the past year, we have added to our fleet of electric vehicles, with each electric car helping to save around 2-3 tonnes of CO_2e per year as well as reducing the impact on local air quality. Our vehicle fleet now comprises just over 30% of electric and hybrid vehicles, with the aim to reach 100% by 2030. This has helped towards us meeting our greenhouse gas emissions target this year.

We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited resources, which is why we have a target to reduce the amount of water per person we need to take from the environment. Unfortunately, we have not met our consumption reduction target this year.

This is due to a combination of factors, including the impact of the very dry weather during spring and summer of last year and the ongoing impact of customers continuing to spend a greater proportion of time working from home since the end of the COVID-19 pandemic.

Water meters are one of the most effective ways of bringing down consumption and we are progressing our programme to install meters for the majority of our customers who don't already have one. More than two thirds of our customers are already metered and we are looking to provide meters for 90% of our customers by March 2025, as part of our pledge to Ofwat.

There have been no category 1 or category 2 incidents of pollution this year, and we have remained in compliance with all our abstraction and environmental discharge licences, being other notable indicators of the importance we place on protecting and enhancing the environment. Finally, we remain on track to deliver our biodiversity commitments and wider environmental improvement programme within the timescales agreed with the Environment Agency.

90%

of customers planned to be metered by 2025

Our people

Our people will always be our greatest asset, and their commitment and determination to deliver a consistently high level of service for our customers can always be counted on. During the challenges of the extreme weather throughout the summer months, there have been countless examples of our people going above and beyond to make sure our customers receive the service they expect and rely upon.

In the past year, we have launched a refreshed Company purpose internally to not only do the right thing for our customers and our environment, but also for our people as one team. The new purpose is: 'Harnessing the potential of water to enhance nature and improve lives', which will be at the forefront of every piece of work we do and every decision made.

The health and safety of our employees, contractors and members of the public remains a key priority. More than 100 Potential Hazard Early Warnings (PHEW) have been reported in the past year, all of which are being fully investigated and the majority already resolved. In the past year, we only had one employee who had absence from work due to a workplace accident.

We also received two silver awards from the Royal Society for the Prevention of Accidents (RoSPA) – one for how we manage our health, safety and wellbeing responsibilities and the other for our vehicle fleet safety.

We continue to recruit within our operational and customer facing teams, introducing new ways of reaching potential employees through our referral scheme, careers fairs and working with local job centres. We have also worked with local education providers to reach future talent about a career in the utilities sector.

We launched our Diversity and Inclusion Strategy by supporting National Inclusion Week with activities for our people. Employee data is now being gathered so more relevant communications, activities, support and facilities can be provided throughout the year, and hiring managers have been provided with information to better support employees and candidates with autism.

Our Mental Health First Aiders continue to provide support for any of our employees who want to discuss their mental health in a safe and confidential space. We have a team of 28 Mental Health First Aiders across the business, providing a ratio of one for every 12 employees.

Our internal people management system has been upgraded to allow employees to more easily manage their own learning and development plans. We have also upgraded the Company intranet, which will improve our employees' ability to find and access the documents they need.

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

Working in the public interest

Delivering more value for the public

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

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

"I'd like to thank SES Water for your kind donation that will be going towards bursaries for our disability play scheme. The funds will help families to access this vital service for children and young people with complex disabilities. It will make a big difference and I know the team are very appreciative."

Mark Savage, YMCA East Surrey

"As always, our running public love the local Surrey tap water, the sustainability messaging and the lack of plastic. Thank you for the fantastic support from SES and we massively value our partnership."

David Kelly, Events Director at Run Series

Industry reflection

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

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

Doing more for our communities

In the past year, we have awarded more than £28,000 to five local charities through our charitable giving fund with the Community Foundation for Surrey. From April 2023, we have adopted a new approach to community partnerships and build partnerships. We have also welcomed an Events & Communications Co-ordinator as a permanent role.

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

We've also supported five community events, including: Run Gatwick, Run Reigate, Cowpie, EcoFair and Apple Day. Across all our events we've recorded more than 1,500 conversations with customers and even helped to build a water efficient, sensory garden, with the support of 60 employees.

At the two running events, we provided water to 20,000 spectators and runners, while also preventing the use of 48,000 single-use plastic bottles.

"We are incredibly grateful for the grant from SES towards the costs of our play work and family support for families from minority communities who speak additional languages and local families who are living with a child who has Special Education Needs (SEN)."

Susie Burnard, Welcare

"Just to let you know that your fabulous raffle raised £164 for the scheme at the Coronation Party. Thank you so much for your help today. You were all brilliant, so helpful and kind. I hope you can come again?"

Emma Wilson, MHA Communities East Surrey

Educating the next generation of water users

During 2022/23, we reached more than 4,000 people with our education programme and welcomed 2,825 students and teachers to our Flow Zone education centre.

We joined The Great British School Trip, which offers young people who need support the most bursaries and free access to school trip experiences, including Flow Zone.

We delivered a Work Experience Week for 12 students from four local secondary schools, began a partnership with Surrey Youth Council to reach future bill payers and ran a session with Year 10 students to explore how we can develop our programme for secondary schools.

We also introduced Flow (our new newsletter) which is issued twice a year and welcomed three new Education Tutors to the team.

Our stakeholders

We work hard to manage **positive and constructive relationships** with a variety of key stakeholders – people or organisations with an interest in **what we do.**

Not only is this the right thing to do for a community-focused business like ourselves, it's also vital for us, given the important role that stakeholders play in helping us successfully deliver for our customers, wider society and the environment – through their ongoing input and involvement in our work.

Understanding our stakeholders

Our stakeholders can be divided into two main groups – those likely to be affected by what we do and those whose actions can affect us.

It's important to be mindful of this difference, as we work to manage our relationship with each stakeholder as effectively as possible – making sure that they help inform the decisions we need to make and how we fulfil the commitments we have made.

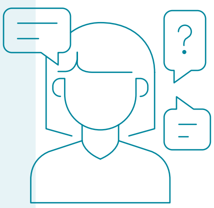
In this section, we set out an overview of our key stakeholder relationships.

It's also important to note that we work closely with our shareholders, with contact between us taking place each day. Our shareholders are represented on our Board by a number of non-executive directors, with further representatives spending time with us, to work alongside senior management, lending support and insight to our work. Our shareholders, and the structure in which they operate, are described in more detail on page 7.

Our customers

What they expect

- That the water we supply to them is always safe and of high quality
- That we provide them with a reliable and resilient service
- That we're reducing leakage – the amount of water lost from our network of pipes
- That we're supporting people to save water, by using it more wisely
- That we're supporting customers who may have particular needs, whether temporary or longer term – for example, if they have a disability, or if they're having financial problems
- That we're playing our part in protecting and improving the environment, as well as contributing more to society
- That we provide a value for money service, with bills that are fair and affordable.



How we talk and listen to each other

- Through regular SES Water updates by direct email to customers and social media
- Through our dedicated 'Voice of the customer' programme, which is helping us improve the service we offer by gathering customer feedback via a range of activities – such as interaction with CCW, which represents the voice of customers at a sector level
- Through our 'Talk on Water' online community of over 300 customers, who tell us what's important to them about their water supply – from water meters to hosepipe bans
- Through **our education programme**, to engage with adults and children alike about the value of water
- Through attending a range of events in the communities we serve
- Through our independent Customer Scrutiny Panel, a group of stakeholders that reflect the interests and expectations of our customers
- Through our dedicated research via focus groups for customers with particular needs and young people – our future bill payers
- We helped to host our 'Your water, your say' meeting with more than 100 customers in attendance.

How we work for the benefit of our customers

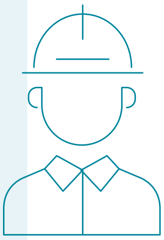
- Via the targets set out in our Business Plan for 2020-25, reflecting the issues most important to our customers, such as:
  - A 15% reduction in leakage
  - 25,000 people being on our **Water Support Scheme**, which provides a 50% discount on their water bill
  - 100% of people being served by more than one WTW, helping make sure they always have a water supply, should there be an unforeseen issue
  - 90% of our customers having a water meter, so they're paying for the amount of water they use Average bills falling by 15.6% by 2025
  - Significant investment being made in our digital capability, to better serve customers
  - Offering excellent customer service through different channels such as telephone and face-to-face, as well as digital.

72%
of our customers have a water meter

Our employees

What they expect

- That we provide them with good opportunities for training and developing new skills
- That we pay them fairly, with good performance in their job being recognised in their annual salary
- That we work to recruit and hold onto high-quality employees
- That we play an active role in the communities we serve, in our broader role as a responsible local business
- That we provide a working environment that's healthy and safe, and which welcomes and values everyone.



How we talk and listen to each other

- Through our regular employee engagement surveys, to find out what's working well and where we may need to improve
- By having a dedicated Board member who is responsible for employee engagement
- By making sure all employees have regular opportunities to see and talk to our senior leaders, such as our CEO
- Through a structured programme for assessing how employees are performing and how people can be developed
- Through an ongoing programme of internal communications, and regular one-to-one meetings for each employee and their line manager
- Through regular 'Open Forum' meetings, hosted by our CFO, CCO and Wholesale Director, for all employees to attend.

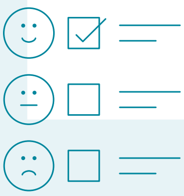
How we work for the benefit of our employees

- Through our **Investors in People** silver accreditation
- By having a clear system in place to manage how employees are performing and develop people's skills
- Through our scheme to enable employees to volunteer in local communities
- Through our Employee Referral Scheme, whereby existing employees can recommend candidates, like friends and family, who would be a good match for our company
- By liaising with our company Joint Negotiating and Consultative Committee (JNCC), to secure a pay deal for employees via constructive talks
- By adopting more flexible working practices
- Through our scheme to enable employees to volunteer in local communities
- By having a team of 28 Mental Health First Aiders across the business, providing a ratio of one for every 12 employees.

Our regulators

What they expect

- That we're helping to increase people's trust and confidence in water companies
- That we're keeping the promises we have made in our current Business Plan
- That all our customers can afford our bills
- That we're playing our part in protecting and improving the environment
- That we're making sure we can better cope with a range of challenging events, such as more extreme droughts
- That we're working as efficiently as we can, with a focus on using innovation to find better ways of working.



How we talk and listen to each other

- By holding regular meetings with all our regulators, including sessions involving non-executive directors from our Board
- By our regulators joining our Board meetings
- By responding to consultations being held by our regulators, as well as their requests for information
- By taking part in national campaigns
- By sharing our learning, knowledge and experiences through water sector forums.

How we work for the benefit of our regulators

- By maintaining our financial gearing (how much debt we have, as a proportion of what the Company is worth) at a level that is acceptable to Ofwat, the economic regulator for water companies in England and Wales
- By updating the way we work out what dividends are paid to shareholders, and what our CEO and other executive directors are paid, to ensure these are fair and balanced
- By committing to saving £9m between 2020 and 2025, by working more efficiently
- By leading the water industry's research and innovation programme to reduce leakage
- By playing an active part in Ofwat's innovation competition.

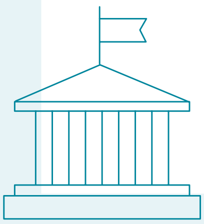
Our stakeholders continued

Local community groups

What they expect	How we talk and listen to each other	How we work for the benefit of our local community groups
– That we play an active role in the communities we serve – That we work to support people in our communities with particular needs – such as people with health issues, a disability or financial problems – That we work to create jobs in the local community, for the long term – That we always look to minimise the impact on communities, including businesses, of work we need to carry out in roads and public spaces.	– Through targeted communications, such as our quarterly 'Connected' newsletter for charities and community partners – By being members of local business forums – By working with organisations that support people in our communities with particular needs – By providing volunteering time for our staff and making financial donations, to support a variety of local causes – Through our education programme, to engage with people of all ages.	– By providing more than £28,000 in community donations, via the **Community Foundation for Surrey** – By reaching more schools, young people, business and community groups, through expanding our education programme – By working to better support people living in housing association properties – through switching them to direct billing, so they can receive a discount from us through our Water Support scheme.

Local authorities

What they expect	How we talk and listen to each other	How we work for the benefit of our local authorities
– That we are planning ahead, so we can cater for a growing population in our area – That we work to soften the water we supply in areas where it is naturally hard – That we work to keep any disruption to local areas to a minimum, by liaising closely with them and others on work we need to carry out in roads and public spaces.	– By our senior leaders regularly meeting with council Chief Executives and directors – By playing our part in boosting local economic growth, by supporting local prosperity initiatives – By engaging with key council departments, such as highways, on particular projects, like work to replace water mains – By being members of, and taking part in, local resilience forums, to help make sure we're collectively prepared to deal with different emergency events.	– We're planning ahead to cater for a 50% increase in the number of people living in our area by 2080 – To minimise disruption to local businesses, we're delaying some of our work to upgrade a number of very large water mains in our area.



Environmental organisations

What they expect

- That we fulfil our important role as guardians of the natural environment in our area
- That we do not damage the environment through our operations
- That we make decisions that are based on long-term sustainability for the environment.

How we talk and listen to each other

- Through our involvement in our local river catchment partnerships
- Through regular meetings with a range of environmental groups
- Via our independent Environmental Scrutiny Panel
- By involving a number of environmental organisations in producing and implementing **our Net Zero Carbon route map**
- By taking a broader view – such as listening to priorities from outside of our organisation and engaging on a regular basis on key environmental matters, such as our relationship with both South East Rivers Trust and The Wildlife Trusts.

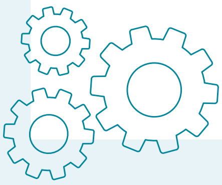
How we work for the benefit of our environmental organisations

- By having specific targets in our current Business Plan to:
  - Cause no pollution of the environment
  - Boost biodiversity at our sites, including gaining prestigious Biodiversity Benchmark Awards for several of our sites
  - Take, or abstract, less water from two local water sources, when water levels in these are low – such as during an extended spell of dry weather
  - Make a marked reduction in our carbon emissions.

Our suppliers

What they expect

- That we have a procurement process that's open and transparent, and which complies with all the relevant laws and regulations
- That we take our legal obligations, such as around modern slavery, very seriously and ensure we are fully compliant, together with our suppliers
- That our contracts with suppliers include provision for data protection
- That we pay promptly for the goods and services supplied to us
- That we work efficiently and effectively as partners with suppliers
- That we have an ongoing clear focus on ensuring and enhancing health and safety
- That we give suppliers a clear view of upcoming work or other requirements.



How we talk and listen to each other

- Through dedicated working relationships, depending on the scope and nature of the arrangement
- Through our procurement team and supplier forums
- Via performance reviews each year with suppliers that are critical to the work we do
- Through regular meetings centred on planning and how suppliers are performing.

How we work for the benefit of our suppliers

- We strive to have strong and productive working relationships
- As a smaller company, we can make effective decisions more quickly
- We work with suppliers to submit join entries for various water industry awards, such as for innovation or engineering
- We provide testimonials for suppliers to use in publicity campaigns and happily support supplier promotional work.

Section 172 statement

The role of the Board

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

Our process

A key reporting requirement is a statement of the directors on our compliance with section 172(1) of the Companies Act 2006. This includes the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard. You can read our statement, along with some examples in action, on pages 42 to 45.

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

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

Our Board continually engages with stakeholders. Read more on pages 42 to 45

Board information

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

Group's culture, underpinned by our re-launched purpose work, helps ensure that there is proper consideration of the potential impacts of decisions

Board strategic discussion

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

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

Board decisions

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

Actions taken as a result of Board engagement

A focus on employee engagement

Non-executive director Jon Woods is the Board's lead on engaging with the workforce and has helped ensure the employee voice is heard in key discussions and decisions. Jon attends the Joint Negotiating and Consultative Committee (JNCC) annually, where he speaks directly with the representatives without management being present. This year key topics of discussion have included the ongoing response to the cost of living issues and the 2023/24 pay deal.

"The JNCC continues to be an invaluable committee, providing an important voice on behalf of the whole workforce for any key discussions that need to be raised with the Board and senior management. As a Board, we have appreciated the honesty and open dialogue generated by the JNCC and its focus on holding management to account on key issues of importance to the workforce."

Jon Woods
Independent non-executive director

Board deep dives

In addition to regular meetings of the Board, regular deep dive sessions take place throughout the year, which are an important part of the governance process and helpful for a greater knowledge of both the Board and management. Time is spent looking at important projects to ensure the investment, structure, goals and delivery plans will result in long-term benefit for the Company and its various stakeholders. It's also an opportunity for Board members, particularly the independent non-executive directors, to provide targeted challenge and support into specific management plans.

Water resources management plans
customers, suppliers, local authorities, regulators and environmental organisations

Health and safety
employees and suppliers

PR24 preparations
customers, employees, local community groups and regulators including Ofwat

Customer service improvement plans
customers, employees and regulators including Ofwat and CCW

Drought planning
customers and regulators

Sustainability

A year of challenge and opportunity

The last 12 months have, once again, demonstrated the absolute importance of our ongoing and increasing focus on our environmental, social and governance (ESG) agenda: the impact our operations have on the environment, and how we mitigate this; the post-COVID cost of living crisis fuelled by geopolitical events, and how we best protect customers from its effects; the importance of preparing for possible future scenarios, and providing transparency and line-of-sight on those impacting us today to key stakeholders.

In a year that saw more UK weather records broken, triggering a nation-wide drought, the storm overflow scandal engulfing our employees elsewhere in the sector and annual inflation reaching levels not seen since the 1970s, the challenges that we and the sector must rise to have never been more apparent.

Additionally this year, the requirement for us to progress our periodic and long-term planning processes have provided opportunity to review and update our aspirations and approach with regard to sustainability. Whilst this work continues, strong progress has been made in several areas critical to the ESG agenda.

Updating our Water Resources Management Plan

Our WRMP is a 50-year blueprint for water resources management developed in collaboration with other water companies in the South East. It is contingent on extensive consultation with our stakeholders. Over the last 12 months, we have developed our draft WRMP for 2025 to 2075. Our final plan to be published later this year.

The WRMP is required to demonstrate water sufficiency for people, the environment, and the wider economy in the long term. Water resources are under pressure from population growth, climate change and the growing economy, resulting in increased demand for water alongside its reduced availability. The vital need to ensure that the environment is not only protected, but improved, is also an integral consideration in these plans. We understand these pressures and plan to mitigate them to ensure a continuity of water supply over the coming decades. Our plan is primarily focused on reducing loss of water through leakage, and use of water through facilitating improved efficiency in both homes and businesses.

The South East of England is expected to have a water deficit of up to 2.7 billion litres a day by 2075 if no action is taken to proactively manage water resources. Our WRMP outlines the actions we will take to ensure that we can supply enough water to meet the increasing demand.

Our WRMP forms an integral part of our Long-Term Delivery Strategy (LTDS).

Improving the environment

Alongside the development of our WRMP, we have been working closely with the Environment Agency and other key stakeholders to develop the next phase of our environmental improvement programme. The WINEP comprises a range of statutory and voluntary deliverables aimed at protecting or improving key aspects of the environment – including the control of the spread of invasive non-native species and the protection and improvement of raw water quality and resource levels.

Our work to deliver the current WINEP programme remains on track, and in developing our plan for the next five years – which in turn will help inform future WINEP programmes – we have incorporated more work aimed at delivering truly catchment-wide, multiple benefits, requiring partnership working and co-funding, and opening up the prospect of nature-based solutions in a range of cases.

Building our Long-Term Delivery Strategy

We have developed our LTDS as part of our regulatory submission later in 2023. Focused on the next 25 years, our LTDS will set out our ambition for delivery of a wide range of outcomes for our customers and the environment between now and 2050.

This strategy will propose a core plan, detailing the actions we will take to achieve the required outcomes, and will also incorporate a range of alternative plans that may need to be adopted should the landscape change in the intervening period – for example due to slower population growth, faster climate change, or the rate of technology enhancements.

We published a draft LTDS towards the end of last year and will publish our final LTDS in October 2023.

Preparing for submission of our next Business Plan

All of these planning processes, alongside significant and simultaneous stakeholder and customer engagement, are informing the shape of our Business Plan for the next five years. We are confident that our ESG agenda will figure strongly in this plan.

Governance and reporting of our ESG strategy

The governance structure, and the roles of each Committee, with respect to ESG are presented below, including the ESG Committee that was implemented in the last year. We continue to report on most of these elements in our Annual Performance Report and are preparing to formally report on our performance against the targets in our ESG strategy when fully developed by the ESG Committee.

The Board considers that – through the Committee and Panels below – it has the appropriate expertise to deal with various ESG matters, including climate change, especially with the support provided by the Environmental Scrutiny Panel. External expertise continues to be utilised when required on such matters, including on carbon reporting and reduction, pollution prevention and biodiversity improvements.

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

Board ownership

Nomination Committee

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

Remuneration Committee

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

Audit Committee

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

Governance Committee

Remit: Covers a broad range of governance requirements in the business, including adherence to Ofwat's Board Leadership, Governance and Transparency objectives incorporated into the Company's licence.

Energy Strategy Committee

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

Health, Safety and Wellbeing Committee

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

Executive management ownership

Equality, Diversity and Inclusion Committee

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

Independent scrutiny panels

Environmental Scrutiny Panel

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

Customer Scrutiny Panel

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

Environmental, Social and Governance Committee

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

Sustainability continued

Progress alongside resilient performance

We are proud that, during a year where the environmental, social and resilience credentials of the water and wider utility sector have been called into question by many stakeholders, we continue to deliver across all aspects, whilst at the same time remain agile to ensure our forward strategy remains fully fit-for-purpose.

Water resources

Following a hugely challenging year for the sector, our work to maintain resilience in our water resources, alongside the actions of our customers, allowed us to avoid imposing temporary use bans during the drought.

Winter rainfall, seeing 130% of the long-term average, resulted in our water resource levels ending the last year in a better position than they started 12 months prior.

Whilst higher than planned, we saw PCC reduce slightly over the last 12 months, with measured customers using on average 1,37l/hd/day, and unmeasured around 1,57l/hd/day. This, during a drought year, provides a reassuring sign that the benefits of our metering programme and associated communications are having a positive impact. Despite the inevitable impact of the weather on our network – from both the drought and last December's freeze/thaw – resulting in a slight increase in leakage, we continue to meet our overall leakage reduction target and remain on track to deliver a 15% reduction by 2025.

With our universal metering programme progressing, ongoing focus on leakage reduction and the ever-evolving changes in customer attitudes to water use, we saw significantly lower demand during the record-breaking temperatures of early July 2022, peaking at some 10% lower than the previous record-breaking heatwave in 2003.

Environmental compliance and pollutions

We remain in full compliance with all our 17 environmental abstraction licences and four discharge permits. Additionally, our ongoing delivery of our pollution performance commitment now means that it has been more than 15 years since we last caused a category 1 (serious) or 2 (significant) pollution incident.

Category 3 (minor) pollutions can occur following burst water mains, and we continue to work hard to ensure we pre-emptively report these incidents to the EA. Over the last year, we have commenced training workshops for our employees, led by the EA, to help us better respond, assess and mitigate the impacts of such events. These joint workshops will continue over the next year.

Biodiversity

Reaccreditation of our Biodiversity Benchmarks at Elmer WTW and our Fetcham Springs site have been achieved this year, with good progress being made towards the planned award of the benchmark at our third target site, Bough Beech WTW, in March next year. This includes consideration of a significant expansion of sites where we are working to promote biodiversity net gain in the run up to and during the next business planning period and beyond.

We have continued our work with Bore Place, a charity local to our Bough Beech site, and a number of other partners to assess opportunity to develop biodiversity net gain on a landscape scale. This has helped inform our WINEP strategy and will, we predict, provide a blueprint for work elsewhere across our operational area.

We have welcomed Ofwat's inclusion of biodiversity as a common performance commitment in the next Business Plan and applaud Defra for the prominence it has been given in the recently published Integrated Plan for Water, which we fully support.

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

* Public Interest Commitment.

Greenhouse gas emissions and net zero carbon

We continue to take action to reduce our carbon footprint resulting from our operational activities and have again met our performance commitment, with emissions of 41 kgCO_2e/Ml, compared with 47 kgCO_2e/Ml last year, the first result under this methodology that was not unduly influenced by suppressed operational activity during the COVID pandemic.

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**

To enable like for like comparison with previous years, excludes emissions from chemicals and upstream emissions of purchased fuels required for Ofwat report from 2022/23.

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 (1,649,168 kWh and 421 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.

We have continued the decarbonisation of our vehicle fleet, with now over 30% of our cars and light goods vehicles fleet being pure electric. Alongside this, work to remove the burning of fossil fuels has been mixed over the last year: we have further reduced our dependency on natural gas for space heating and have proven the ability of our standby generator sets to run on pure biofuel. However, supply difficulties and escalating costs owing to the war in Ukraine have prevented a full switch-over to biofuel at this time.

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.

Our work on demand reduction, energy efficiency and switching to more renewable sources of energy will continue over the coming year and beyond. Alongside this, we have for the first time assessed our embedded carbon emissions over the last year. We will now report this figure annually alongside our operational carbon emissions, and update our net zero carbon routemap to reflect an ambition to reduce both types of carbon emissions simultaneously.

The Environmental Scrutiny Panel

Alison Thompson
Independent Chair, Environmental Scrutiny Panel

Independent scrutiny and challenge

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

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

The Environmental Scrutiny Panel

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

Chair's report

This year is a pivotal year for SES Water, as it is in the process of concurrently developing an LTDS to 2050, whilst setting out its Business Plan for the next five years. This represents an important moment in time to lock in environmental ambition and customer support.

Given this window, the ESP focused this year on aligning with the Board and Executive on areas that are important to customers and that will help to protect and enhance the environment. We have valued having Tom Kelly, Wholesale Director, as well as Ian Cain, Chief Executive, and a shareholder representative at our meetings. This sends a powerful message about how seriously the business takes environmental issues.

This level of access and dynamic collaboration has, I believe, set the ESP up to succeed in effectively lending quality, well-timed challenge as a respected critical friend to SES Water, to give the environment the voice it deserves. We act on behalf of current and future citizens, at a time when environmental issues have risen up both the public consciousness and media agenda.

Assessing current performance

Preparing for the Price Review 2024 (PR24), the ESP conducted a stock take to triangulate SES Water's performance to date against its Price Review 2019 performance commitments, as well as best practice, regional goals, and statutory requirements. SES Water was forthcoming with a consolidated performance data set, which has provided a holistic sense of the Company's actual starting point going into the next five-year Asset Management Period starting 2025.

We also used this evidence as one input to help us prioritise our challenge log to the Company, drawing on the diverse expertise of our ESP members. These include representatives from the Environment Agency, Surrey Wildlife Trust, South East Rivers Trust, CCW (the independent consumer body for the water industry) and Water Resources South East as well as independent experts in the water industry and sustainability.

This has not been a purely desk-based exercise. Since setting up the ESP, I have been clear that site visits to supplement Board room discussions would be an important part of our role. Last October, we had the pleasure of visiting the Hogsmill River, a chalk stream. Both SES Water and Thames Water hold Environment Agency abstraction licences which allow them to

"We have encouraged the Company to build on strengths including its award-winning, self-learning intelligent network to support leakage delivery."

abstract water from the chalk aquifer that feeds the Hogsmill and other chalk streams.

This site visit enabled us to see first-hand the impact that the South East Rivers Trust is making to the river, including the development of the Chamber Mead Wetlands Project. The project will promote the health of the Hogsmill by providing natural filtration to reduce pollution as well as promoting biodiversity, storing carbon, and attenuating storm flows.

The visit enabled ESP members to appreciate the need to understand local rivers at the system level. This systemic approach has underpinned our challenges to SES Water this year, all of which have taken place in the context of SES Water's refreshed purpose:

"Harnessing the potential of water to enhance nature and improve lives."

Challenging the building blocks

In writing its Business Plan for PR24, SES Water must first get the building blocks of the plan in place. There are two key statutory processes that underpin this, the WRMP and the WINEP, which the Company must submit for regulatory approval. The ESP has scrutinised both of these submissions from SES Water because, while statutory compliance is essential, our goal has always been to inspire stretch and ambition.

We want to see more action from SES Water in its WRMP and WINEP terms of: leaving more water in the environment through ensuring sustainable abstraction; reducing water use and wastage; and addressing water resource issues in a more systemic way using catchment-based approaches.

For PR24, SES Water is also required to produce an LTDS. Having seen the Company's early thinking on this, we ran a series of deep dive sessions with the Executive to interrogate assumptions and plans. We have encouraged the Company to build on strengths including its award-winning, self-learning intelligent network to support leakage delivery. We have probed in areas including enhancing nature, adapting to and mitigating climate change impacts, managing leakage and incentivising positive changes to customers' and communities' water use.

We have challenged SES Water to maintain – and where possible build on – its leading upper quartile performance in leakage reduction, supply interruptions, mains bursts and water quality. Simultaneously, we believe the Company really needs to focus on reducing water use at household and non-household level whilst enhancing nature and considering wider environmental gains.

There are a couple of important drivers here. First, SES Water has one of the highest per capita consumption rates in the country. Second, the regional water resources plan for the South East anticipates that over half of the supply/demand gap forecast for 2050 will be met through demand management (comprising usage and leakage reduction and drought interventions). Yet research by CCW shows there is a significant lack of citizen knowledge about the need to use less water or the significant water deficit we anticipate.

To support our ability as a panel to provide more detailed scrutiny on this crucial issue, I was delighted to appoint Stephanie Hurry, Head of Water Efficiency Engagement at Waterwise, to the ESP. Stephanie has injected both well-informed challenge and a dynamic approach as we look to the future on engaging people on changing behaviour and reducing water use. She asserts that new targets at SES Water need to be ambitious and underpinned by innovation.

Given growing demand pressures and the predicted regional water deficit, the ESP has also challenged SES Water to update to a fully smart meter stock in the next AMP. This must be supported by strong engagement with consumers to maximise the benefits and careful monitoring and evaluation of interventions to discover what works in this space. We believe particular priority should be attached to partnership working with high water users.

Constructive engagement

Finally, I want to express my gratitude to all the diverse members of the ESP for their energy, insights, and support in ensuring we collectively provide high-quality challenge to the Company. Thank you in turn to the Executive and Board of SES Water, for the spirit in which you have received our challenge, played back to us how it has created impact, and shown us how you are turning it into opportunity and better environmental outcomes.

Alison Thompson
Independent Chair, Environmental Scrutiny Panel

The Customer Scrutiny Panel

Steve Crabb
Independent Chair, Customer Scrutiny Panel

The Customer Scrutiny Panel

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

"We are getting stronger and better equipped to provide constructive challenge all the time."

Chair's report

Scrutinising performance

The last year has again been a time of considerable change for SES Water's independent Customer Scrutiny Panel. As part of our process of refreshing the membership and rebalancing the composition of the panel, we have said goodbye to some long-standing members who have made a great contribution to our work over the past few years. In their place we have brought in new members with expertise in customer engagement and research, in the young people who are tomorrow's bill payers, and in the communities and the customers SES Water serves – particularly those in vulnerable circumstances. There's still work to do, especially in ensuring that the panel represents the full diversity of SES Water's operating area and customer base, but I am confident we are getting stronger and better equipped to provide constructive challenge all the time.

Over the past year, we have continued to scrutinise SES Water's 'business as usual' performance, encouraging the Company to reduce its email backlogs, reviewing its customer communications and probing why it isn't higher in Ofwat's customer satisfaction 'league table' when it appears to be heading in the right direction on most of the key dimensions of delivering for customers. We have looked in depth at the Company's new purpose and its Universal Metering Programme; customer complaints; work on a social tariff for customers in financial hardship; and its strategy for supporting customers in vulnerable circumstances.

The executive team have taken our robust challenges in the positive spirit they are intended, and been consistently transparent and open with us about the challenges they face. Throughout, we have seen a steady increase in the quality of the SES Water team in key positions and the strategic approach they have taken to issues such as communications, community engagement and stakeholder relations, online account management and work with third parties to connect with harder-to-reach customers. SES Water has also built on last year's introduction of its Aptumo technology, which produced more accurate billing and a far clearer picture of how customers were being served; in the last year, the Company has done important new research into the demographic profile of the customers and communities it serves, allowing far better targeting of key support services.

SES Water is unique among water companies in separating its Independent Challenge function into dedicated environmental and customer groups, and we celebrate that because it allows us to give equal focus to both. My fellow chair, Alison Thompson, and I have ensured that the Environmental and Customer Scrutiny Panels have continued to work closely together over the past year, dovetailing our agendas and now aligning our meetings on the same days to ensure that we cover the key questions from all angles. There are few issues relating to customers that don't have an environmental impact, and most environmental change depends on either customer actions or at least their agreement.

"The last year has seen some outstanding examples of SES Water acting as a 'disruptive innovator' on the environmental front, not least in its work to build a smart network; I look forward to seeing more of the same kind of thinking applied for the benefit of customers in the coming year."

The last year has seen some outstanding examples of SES Water acting as a 'disruptive innovator' on the environmental front, not least in its work to build a smart network; I look forward to seeing more of the same kind of thinking applied for the benefit of customers in the coming year.

As the year has progressed, the Customer Scrutiny Panel has devoted an increasing amount of its time to supporting the customer and community engagement required as part of Ofwat's five-yearly Price Review cycle, 'PR24'. As a relatively small water company, we understand that SES Water does not have the capabilities to devote to this process that some of the larger companies can rely on; the Company's small PR24 team have had to be agile and creative in stretching limited resources to cover a large amount of ground. The Company has also brought in external resources to support the internal team. We have challenged them to be as structured as they can in their approach, setting out clear timelines for customer and stakeholder engagement and sharing their plans with the Customer Scrutiny Panel at an early stage so we can make a meaningful input into their thinking. And all of this is happening within an extremely fluid regulatory environment where expectations of the role of the Customer and Environmental Scrutiny Panels has changed considerably as time has passed. It is still a work in progress, but we are all working as hard as possible to get it right.

Finally, I would like to thank Ian Cain and the executive team at SES Water and Dave Shemmans and his employees on the Company's Board for their support for and encouragement of the work of the Customer Scrutiny Panel over the last year.

Steve Crabb
Independent Chair, Customer Scrutiny Panel

Financial review

Our financial performance

"The Company's continued focus on delivering for our customers and driving operational resilience remains our priority in these difficult times."

Paul Kerr
Chief Financial Officer

Despite seeing a recovery from the COVID-19 pandemic, the year ended 31 March 2023 continued to be another challenging year financially for the Company. The impact of the cost of living crisis on customers, upward cost pressures on supply chain (in particular chemical costs), and the impact of rising inflation significantly increasing our cost of debt has further challenged the financial position of our business.

Our financial performance was impacted in the year by a number of key factors:

- During the year, household revenue increased due to higher volumes of water used driven by the long hot summer. Unmeasured revenue remained consistent with last year, despite the switches from unmeasured to measured tariffs seen as part of our planned metering programme.
- Non-household volumes increased from prior year as the industry continued to recover from the COVID-19 pandemic.
- Developer services revenue decreased from prior year due to lower volumes of new connections as a result of lower demand and more developers choosing to do their own connections.
- With record levels of double digit inflation and supply chain pressures, significant cost increases were seen in our operational areas, with increased chemical and material costs. However, we protected ourselves from the impact of rising energy costs by hedging with fixed prices.
- Higher inflation has significantly increased the cost of our long-term index-linked debt, with an additional £16m being charged in the year. Although the index-linked charge is non-cash in nature, it increases the value of the loan that is repayable from 2027. Actual cash interest on the loan remains consistent with the prior year; however, due to rising interest rates, we paid an additional £1.7m on our floating rate revolving credit facility. The prior year financing costs included a one-off £3.5m cost associated with renegotiation of the long-term index-linked debt with our bondholders.
- Due to the loss before tax, primarily driven by the impact of inflation on our index-linked bond, a tax credit was received in the year.
- The cost of living issues continue to impact our cash collections. Despite our efforts to increase debt collection activities to those customers who can afford to pay, we increased our bad debt provision by £1.5m due to rising levels of customer debt.

Financial performance

Our financial results are summarised in the table below. For more information, refer to the statutory financial statements from page 123.

Year ended	2023 £'000	2022 £'000	Change £'000	Change %
Revenue	**67,446**	62,953	4,493	7%
Operating expenses	**(62,818)**	(56,607)	(6,211)	11%
Other operating income	**1,097**	3,358	(2,261)	(67%)
Net impairment (losses)/write-backs on financial and contract assets	**(1,458)**	449	(1,907)	(425%)
Operating profit	**4,267**	10,153	(5,886)	(58%)
Finance income	**855**	368	487	132%
Finance expense	**(30,612)**	(15,923)	(14,689)	92%
Loss before tax	**(25,490)**	(5,402)	(20,088)	(372%)
Tax credit/(charge)	**5,979**	(11,935)	17,914	(150%)
Loss after tax	**(19,511)**	(17,337)	(2,174)	(13%)

Our year ended 31 March 2023 cash reserves were £38.9m. This £38.9m includes £9m that sits within our restricted accounts per the requirements of our index-linked bond, £15m was drawn down on a short-term overdraft to meet our interest cover ratios and £7m was provided in the form of a shareholder loan over the year-end period. We have fully utilised our £75m revolving credit facility.

Key to our delivery of our performance commitments is the investment in our infrastructure. This year we have continued our capital programme with significant investment in replacing and laying key strategic mains to increase operational resilience, upgrading our WTW at Bough Beech to increase capacity and investing in our metering and smart network programme.

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

Revenue

Our revenue is mainly generated by billing our household and non-household customers for the essential water service that we provide. The prices that we charge our customers are determined by working with our regulator Ofwat on a five-year price review process, based upon the costs we expect to incur to operate the business in that period. Our current regulatory period covers 1 April 2020 to 31 March 2025, known as 'AMP 7', with 2022/23 being the third year of the five-year period.

Total revenue has increased by 7% to £67.4m (2022: £63.0m). This overall increase is primarily due to an 11% increase on household measured revenue to £31.5m (2022: £28.5m) due to higher volumes of water consumed compared with the prior year, mainly driven by the long hot summer. In addition, a c4% increase in tariffs charged compared with prior year increased household revenue. Non-household revenue increased from 2021/22 as the industry returned to pre-pandemic levels at £9.7m (2022: £7.7m).

As noted in our Regulatory Accounts for the year-ended 31 March 2023, we under recovered our total allowed revenue by £11.0m for the year, which was driven primarily by significantly higher inflation than forecast when tariffs for 2022/23 were set in 2021/22, together with continued lower level of business consumption than initially forecast. Tariffs will be adjusted in 2024/25 to address this under recovery in line with Ofwat's regulatory rules.

Revenue breakdown

Year ended	2023 £'000	2022 £'000	Change £'000	Change %
Measured water revenue (household)	**31,476**	28,461	3,015	11%
Unmeasured water revenue (household)	**20,850**	20,562	288	1%
Total Water Revenue (household)	**52,326**	49,023	3,303	7%
Wholesale revenue from retailers (non-household)	**9,662**	7,726	1,936	25%
Non-water revenue	**778**	817	(39)	(5%)
Other water revenue	**2,303**	3,090	(787)	(25%)
Non-appointed revenue	**2,377**	2,297	80	3%
Total Revenue	**67,446**	62,953	4,493	7%

Financial review continued

Operating expenses and other operating income

Operating expenses increased by 11% to £62.8m (2022: £56.6m), with the increases primarily being driven by:

- Raw materials and consumables increased by £0.7m (23%) to £4.0m (2022: £3.3m) due to the increased supply chain pressure (in particular chemical prices) seen across the industry.
- Depreciation increased by £0.6m (5%) to £12.5m (2022: £11.9m) due to the continued investment in our capital programme.
- Other operating costs increased by £2.3m to £8.5m (2022: £6.1m) due to increased environment agency license charges, increased software license costs and greater network maintenance expenditure.
- Despite the continued pressures driven by inflation and our supply chain we have taken proactive steps to mitigate operating costs increases where we can whilst maintaining performance levels.

Other operating income decreased by £2.3m (67%) to £1.1m (2022: £3.4m) due to one-off receipts in 2022 relating to the following: £1.9m of insurance monies related to damage caused by a chemical spill in 2017 at Elmer Treatment Works; and profit on disposal of assets of £1.3m primarily due to the sale of the Woodcote Reservoir site in 2022.

In year ended 2023 a commercial settlement with Doosan of £0.7m was agreed.

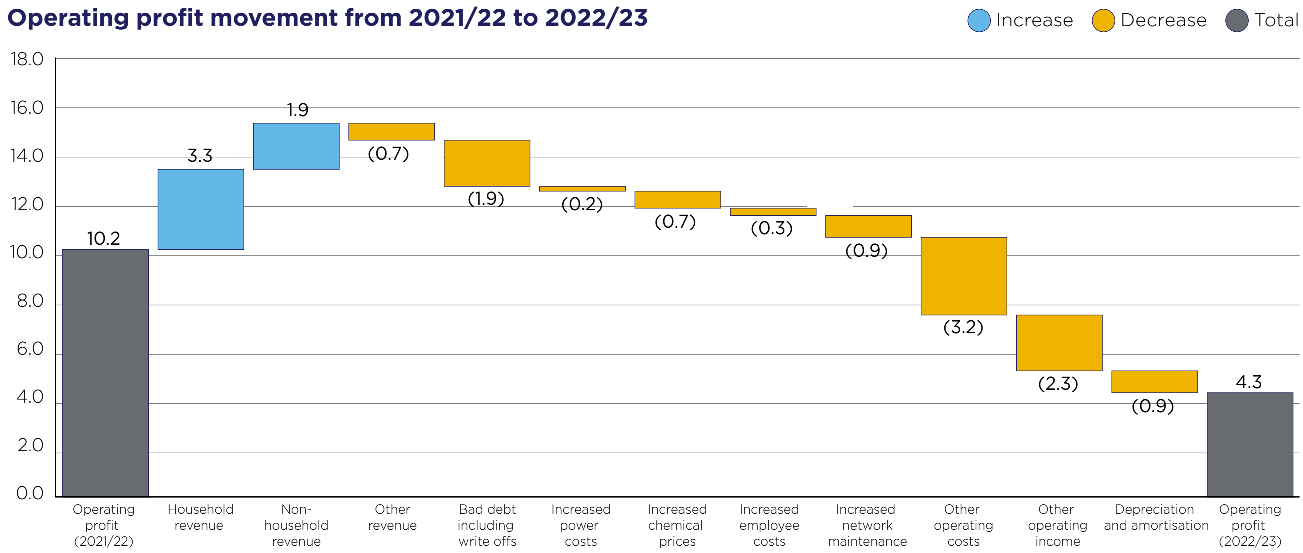
Bad debt

Bad debt is predominantly driven by customers who are unwilling or unable to pay their water bills. The Company continues to have measures in place to support those customers who are unable to pay their water bills and enhance its cash collections. The COVID-19 pandemic and subsequent cost of living issues adversely impacted on our customers' ability to pay their water bills and as a result the expected credit loss model (bad debt provision) increased to £9.3m from £7.9m in the year ended March 2023. We continue to be proactive with our cash collections including in 2022/23 outsourcing our debt collection work focusing on reducing older debt where customers are able but unwilling to pay their bills.

Operating profit

As a result, operating profit reduced by 58% to £4.3m (2022: £10.2m) as summarised in the graph below:

Operating profit movement from 2021/22 to 2022/23



Financing costs

Financing costs increased to £30.6m (2022: £15.9m), a 92% increase due to the impact of high inflation on our index-linked bond, increasing the charge in the year by £14.7m. Although the index linked charge is not a cash item in the year, it increases the value of the debt owed to bondholders which is payable in cash instalments from 2027 to 2031.

Key financial metrics

Year ended	**2023 £'000**	2022 £'000	Change £'000	Change %
Dividends Paid – Appointed	**3,100**	2,916	184	6%
Dividends Paid – Non Appointed	**5,000**	600	4,400	733%
Capital expenditure including intangibles	**25,300**	27,000	(1,700)	(6%)
Net pension scheme asset	**8,409**	25,293	(16,884)	(67%)
Cash and cash equivalents	**38,957**	24,102	14,855	62%
Net indebtedness	**255,896**	210,202	45,694	22%
Interest cover ratio	**4.5x**	2.3x		
Regulatory gearing	**77%**	72%		
Bond gearing	**77%**	72%		
Moody's credit rating	**Baa2 (stable)**	Baa2 (stable)		

Tax

In 2022/23, we continued to pay contributions to HMRC in business rates, national insurance contributions, PAYE and other taxes. Within the financial year, we have not had to pay corporation tax to HMRC due to our interest costs and tax relief generated by our capital investment programme.

Dividends

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%. In May 2023 the Board determined that no final appointed dividend would be payable for the year.

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 for the year ended 31 March 2023 of 4.0% (2022: 3.5%).

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.

The Board carefully considered the payment of these dividends in line with our dividend policy, taking into account service delivery for our customers. A full explanation of these dividend payments is provided in the Directors' report on page 112.

Capital expenditure

During the third year of AMP 7, we invested £25.3m (2022: £27.0m) in our capital investment programme. Key projects include the following:

- Investment in the ongoing replacement of pipes in our distribution network £5.8m (2022: £6.7m) enabling targeted replacement based on age, condition and performance of our network.
- A further £1.9m (2022: £1.8m) to improve our resilience mains (to ensure water can be efficiently moved around our supply area now and in the future).
- £0.3m (2022: £0.8m) was spent on extending our network into new housing developments.
- £7.7m (2022: £8.9m) was invested in replacing and upgrading our treatment works, pumping stations, service reservoirs and other operational sites, including our final phase of refurbishment at Bough Beech.
- A further £3.5m (2022: £3.2m) was invested into our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.
- £1.4m (2022: £3.1m) was invested in IT including introducing a new customer account management tool – 'MyAccount' – to work alongside our billing system that we implemented in October 2021.
- Other expenditure on capex including facilities and our laboratories totalled £4.2m (2022: £2.5m).

Financial review continued

Pension scheme

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

During the year, the pension scheme went through a Section 'buy-in' transaction whereby the trustees of the scheme decided to invest into an insurance policy equal to the scheme's liabilities. This change occurred to reduce the administrative costs of the scheme together with reducing the volatilities seen in the scheme due to market fluctuations. The purchase of the insurance policy reduced the value of the assets, with the change in value being recorded in Other Comprehensive Income.

The accounting valuation has been updated to 31 March 2023 by our independent actuary Lane Clark & Peacock. The scheme remains in surplus with a pension scheme asset of £9.2m, (2022: £26.3m) and a decrease of £17.1m is included in the balance sheet regarding the defined benefit scheme. The decrease was due to a fall in the yields available on corporate bonds, lower returns on the Section's assets and Section 'buy-in', together with higher inflation, which increases the scheme's obligations.

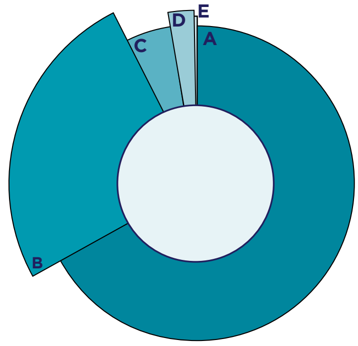
Cash and net debt

The Company held cash and cash equivalents at the year end of £38.9m (2022: £24.1m). Cash from operating activities fell by £1.5m to £8.2m (2022: £9.7m) largely due to additional interest payments net of income tax refunds received.

The Company invested £25.3m, a decrease of 6.3% on the capital programme of £3.5m (2022: £27.0m). The Company had net cash receipts of £38.0m, an increase of £23.0m (153%) compared with the prior year from financing activities of which £22m was held within our cash balance at year end.

This included a short term overdraft of £15.0m and the Company borrowed £7.0m from its ultimate shareholder as a contingency that remained in cash at year end, The £15m overdraft and £3m of the shareholder loan were subsequently repaid in the new financial year.

Types of debt held within SESW



A Index linked debt	**£197.8m**
B Revolving Credit Facility	**£75.0m**
C Overdraft	**£15.0m**
D Shareholder Loan	**£7.0m**
E Debentures	**£0.1m**

Financing ratios and credit rating

During the year, we have continued to have constructive conversations with the credit rating agencies, with our focus on financial and operational resilience during another challenging year, which has been magnified by the impact of high inflation on our index-linked bond.

In accordance with our £100.0m index-linked bond, we have restrictions on our level of gearing and interest cover ratios (ICR). Our gearing, as measured by the bond agreement, is the ratio of net indebtedness (total debt less cash) to regulatory capital value (RCV), which is determined by Ofwat. The RCV is indexed by movement in RPI and CPI. The ratio as defined by our bond was 77% (2022: 72%), within the 80% permitted by our covenants. The significant increase in RPI inflation has had a material impact on our gearing due to the indexation charge on our long-term bond.

Our interest cover (Interest charges (excluding indexation) as a ratio of cash held at bank) for the year was 4.5x (2022: 2.3x), and our adjusted interest cover ratio (AICR) as defined in the bond agreement (including the indexation charge on the bond) was 1.3x (2022: 1.0x), again within the minimum levels required of 1.0x.

Future outlook and financial resilience

Our shareholders have engaged external advisors on a strategic review of SES Water and the wider East Surrey Holdings group; whilst this is ongoing, our focus is on maintaining financial resilience alongside delivering for our customers on a day-to-day basis.

Due to the strategic review we have not increased our externally funded debt in the year but we have additional committed equity support from our shareholders. We are continuing with our refinancing strategy to ensure that we have appropriately resilient plans in place to ensure the ongoing liquidity of the Company.

Resilience and risk management

Maintaining resilience and managing risk are key activities embedded in our culture to ensure that we meet customers' expectations of an uninterrupted, safe and clean water supply.

SES Water faces similar challenges to other water companies in the UK, in terms of challenges arising from climate change, growing population, and the need to protect the environment. Therefore, resilience and risk management are an integral part of our Company's management systems and procedures that underpin the delivery of our Company policies. We continually monitor and ensure appropriate mitigation of the risks we face, especially since the nature of risk over recent years required that we develop more complex and dynamic stress tests and scenarios to further evolve risk management to enable us to predict, control and mitigate unintended consequences. We also monitor our wider resilience systems in the key areas of Corporate, Financial and Operational resilience. We have developed a framework, building on Ofwat's approach to 'Resilience in the Round' and aligned to the British Standard for Organisational Resilience, BS 65000:2014, that helps ensure that external shocks and stresses (such as recent political challenges and ongoing issues arising from the COVID-19 pandemic) do not distract us from meeting the needs of the community we serve.

Principal and emerging risks

We have an established risk management process that enables us to identify, assess, manage, and mitigate risk in line with our business strategy. Our Corporate Risk Register records and ranks risks according to the likelihood of occurrence and magnitude of impact, as well as keeping track of the actions taken to mitigate the risk. Our Audit Committee formally reviews the register twice a year and reports back to the Board on the status of all identified risks and any additional measures that are being implemented.

Emerging new risks are assessed at an early stage so that appropriate controls are put in place. We monitor these new risks closely and they are adopted as principal risks or are incorporated into existing principal risks as appropriate. Some may be superseded by other risks or cease to be a risk as the internal or external situation changes. Emerging risks are new risks, familiar risks in a new or unfamiliar context (re-emerging), trends, innovations and potential game changers.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of our Company.

Risks continued

Principal and emerging risks

Managing risk is a key activity embedded in our culture

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

Risk	Pledge	Effect	Mitigations	Risk after mitigating action
Financial				
Current UK economic uncertainty		Customers not paying their water bills Operational costs increase Insufficient funding to fulfil duties Failure to meet efficiency targets Increase in borrowing costs breaches financial covenants	– Direct equity support from shareholders to ensure financial resilience – Updated totex plan in place – Reviewing optimal financial arrangements to ensure gearing remains at an acceptable regulatory level – Detailed treasury controls at key measurement points – Adequate reserves in place	
Penalties for not delivering regulatory performance targets		Lower revenue recovered from customers Reputational damage including the impacts of not achieving our C-MeX and D-MeX targets	– Clear lines of accountability and responsibility in place for each target – Regular and detailed performance analysis and reporting is undertaken for each, as well as modelling and forecasting of current trends and future performance – The majority of performance against targets is captured in audits, while some figures are obtained from external, neutral sources – Improvement and recovery plans in place. This includes improving services to all our customers, including developers, through targeted action plans and supplemented by system improvements	
Business systems				
Cyber-attack		Interference with operational controls Loss of personal data	– Multiple layer security – Controlled access to Company systems – Participation in expert forums – Regular testing and enhancement of security measures – Increased employee awareness training	
Non-compliance with legal obligations		Failures lead to enforcement action and reputational damage	– Employee training and awareness – Formal processes for compliance with market codes – Increased dedicated resources – Independent audit assurance	
Failure of core applications		Temporary loss of revenue Poor customer experience	– Billing system replaced – Formal support from system provider – Resilient IT infrastructure – Adequate liquidity for temporary loss of billing capability	
Inability to adapt to impact of climate change		Failure to meet regulatory expectations Environmental impact affecting water resources Financial impact of inadequate investment	– Specific environmental performance commitments in our Business Plan – Environmental Scrutiny Panel – Dedicated Energy Strategy Committee – Board leadership through an ESG Committee	

Risk score

Impact	Unlikely	Possible	Likely
High	X	–	!
Medium	X	–	!
Low	X	–	!

Likelihood

Pledges

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

Risk	Pledge	Effect	Mitigations	Risk after mitigating action
People				
Reduced availability of employees		Failure of normal business operations	– Health benefits including flu injections offered to employees – Staff engagement and consultation to avoid industrial action – Focus on health, safety and wellbeing of staff – Cross-training – Annual disaster recovery exercises – Industry mutual aid agreements	X
Failure to recruit, retain and develop high-quality staff		Degradation of service to customers and business success	– Competitive employment conditions and employee benefits – Investors in People silver recognition – Performance-related pay for senior employees – Use of expert recruitment partners – Staff recognition schemes – Training and development – Annual employee engagement survey – Hybrid working	!
Physical assets				
Large scale water supply or quality failure, including by deliberate acts		Disruption to supplies Failure of statutory duty	– 24/7 manned Control Room and standby arrangements – Detailed control procedures and automated treatment processes – Security measures at all sites – Asset flood protection – Extensive sampling regime and in-house laboratory – Targeted asset maintenance and investment – Increase in number of customers who can be supplied by more than one treatment works	–
Supply chain fragility		Increased costs and potential impact to ability to supply wholesome water	– Framework contracts – Managing demand through operational adjustments and forward planning – Industry intelligence – Event management	!
Water supply shortage due to drought		Customer demand not met	– Detailed water resource management planning including at a regional level – Maintaining ability to treat peak demand at treatment works – Resilience and flexibility of network – Roll-out of universal metering programme – Water efficiency programme	X

Risks continued

Commentary below is provided on a selection of the principal risks to the Company prior to the adoption of mitigating measures. The Risk scoring after the mitigation in place is also shown next to each risk. This is calculated based on the likelihood of the risk occurring and the impact it would have, as shown in the Risk Score table.

Principal risk

Current UK economic uncertainty

What is the risk?

Continued high levels of inflation may result in increased operational and supply chain costs for the business, higher financing costs and increased levels of bad debt as customers are adversely impacted by the overall impact on the cost of living issues

Pledge

Risk score (post mitigation)

What does it mean for us?

The cumulative impacts of rising bad debt and increased costs to deliver impact cash flow and restrict the funds available to support the fulfilment of our regulatory duties and impact reputation. In addition, the continued high levels of inflation in the UK has increased the value of our debt (due to the large proportion of historic index-linked debt we hold), which has in turn increased our gearing and put pressure on our financial resilience (reducing available debt headroom).

What are we doing to manage the risk?

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

Recovery plans are in place for all areas where performance needs to improve and efficiency needs to be delivered, with progress presented at monthly senior leadership review meetings. To address the impact of high inflation on our gearing levels, we have committed equity support of £22m from our shareholders to combat this external impact on our financial resilience, in additional to wider letters of support to deal with further downside financial risks.

Principal risk

Cyber-attack

What is the risk?

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

Pledge

Risk score (post mitigation)

What does it mean for us?

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

What are we doing to manage the risk?

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

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

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

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

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

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

Risk score

Impact	Unlikely	Possible	Likely
High	X	–	!
Medium	X	–	!
Low	X	–	!

Likelihood

Pledges

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

Principal risk

Reduced availability of employees

What is the risk?

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

Pledge

Risk score (post mitigation)

!

What does it mean for us?

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

What are we doing to manage the risk?

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

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

Principal risk

Water supply or water quality failure

What is the risk?

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

Pledge

Risk score (post mitigation)

–

What does it mean for us?

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

What are we doing to manage the risk?

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

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

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

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

Risks continued

Principal risk

Climate Change

What is the risk?

That we do not plan for and respond appropriately to the potential risks to water resource availability (due to drought or deterioration in source quality) and ability to supply (due to flooding), or we are responsible for negative impacts on the environment through reduction in biodiversity and high energy and carbon use, resulting in a failure to meet regulatory and customer expectations.

Pledge

Risk score (post mitigation)

What does it mean for us?

If we do not prepare for and adapt to the potential impacts of climate change we may fail in our pledge to deliver high quality water all day every day for our customers and therefore fail in our regulatory obligations and commitments impacting our reputation and with the potential for financial penalty.

What are we doing to manage the risk?

Based on the findings of the Climate Change Risk Assessment and Climate Adaptation Report, we have established multiple workstreams to ensure we are assessing the potential areas of challenge and risk and preparing for the additional workload and investment needed, including the requirement to appoint appropriately qualified resources.

Key measures of the workstream deliverables are being reported and monitored, with specific support and engagement through the Environmental Scrutiny Panel and Board.

Principal risk

Supply chain fragility

What is the risk?

Following the speed of reset of the global economy post-COVID, and due to the compounding impact of Brexit and the conflict in Ukraine as well, demand is outstripping supply, causing issues with goods and materials availability and hence price

Pledge

Risk score (post mitigation)

What does it mean for us?

Cost increases on goods and services, extended lead-times, and some interruptions

What are we doing to manage the risk?

Framework contracts are already in place for the vast majority of commonly used and critical materials and goods. Work is also progressing to identify ways in which our demand for these goods can either be reduced or delayed through operational adjustments of planning of work to a later date (when supply/demand is back in balance).

SES Procurement captures intelligence from across the sector on supply chain impacts on a fortnightly basis on behalf of the Water UK event team. Same team also collate intelligence and evidence of potential and live price rises, holding this centrally. Issues are raised and discussed regularly in monthly performance meetings. Specific subject matter meetings take place alongside this, including for example chemical optimisation, and network planning.

Emerging risks

Supply chain deliverability

The compounding impact of Brexit, COVID-19 and the conflict in Ukraine resulted in increased disruption to supplies, and significantly increased to costs. Whilst we have now adapted to a new norm, we monitor changes that could present a risk to our ability to supply wholesome water for PR24 and beyond.

Cost of living

Whilst considered as an overriding contributory factor in the most recent review of the relevant risks in the register, a second, stronger and more impactful crisis may warrant specific consideration and mitigation strategies.

Board oversight of risk

Board

Audit Committee

Bi-annual review
of Corporate Risk Register

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

Executive Leadership Team

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

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

Also reviews emerging risks

Company policies

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

Quality and Environmental Management System and Procedures

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

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

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

Values and pledges

Task Force on Climate-Related Financial Disclosures (TCFD)

Risk management – climate change risks and opportunities summary

As noted on page 66, climate change is one of our principal risks, with the trajectory of the risk increasing due to increased stakeholder interest across the water sector and continued focus by our regulators and customers.

We have considered climate risk and opportunities as detailed in the table below. This work, which is part of the external Climate Change adaptation review submitted to Defra, provides an initial view of the impact of such climate risks and opportunities and will be considered further as we progress our overall ESG materiality work in 2023/24.

Key

Time horizon	Short-term	Medium-term	Long-term	Short term 0-5 years, Medium term 5-10 years, Long term >10 years	**Annual impact**	Low	Medium	High
Scale 1-5	1	2	3	4	5			

Risk/opportunity	Cause of financial risk/opportunity	TCFD type	Type of financial impact	Time horizon	Likelihood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential impact (annually)
Risks from drought and high/peak water demand	High/peak demand due to heatwaves	Physical	Increased operating costs	Short-term	3	3	Low
	Drought impacting water supply	Market	Increased operating costs	Medium-term	2	4	Low
	Climate induced land use change leading to high/peak demand	Market	Increased operating costs	Long-term	3	2	Low
	High temperature and low precipitation leading to reduced abstraction allowance	Market	Increased operating costs	Long-term	2	3	Low
	Wildfires and urban fires increasing water demand	Market	Increased operating costs	Medium-term	3	2	Low
Risks to water quality and natural capital	High precipitation increasing run off and pollution	Physical	Increased capital and operating costs and potential fines	Short-term	4	3	Medium
	Declining natural capital due to high temperatures and low precipitation	Physical	Increased operating costs	Long-term	3	3	Low
	Algal blooms due to high temperatures	Physical	Increased operating and capital costs	Medium-term	4	2	Low
	Increased Invasive and non-natural species driven by high temperatures	Physical	Increased operating costs	Medium-term	3	2	Low
	Changing climate driving land use change increasing pollution	Physical	Increased operating and capital costs and potential fines	Long-term	3	2	Medium
	Changing climate increasing wildfires driving increased diffuse pollution	Physical	Increased operating and capital costs and potential fines	Long-term	3	2	Low

Risk/opportunity	Cause of financial risk/opportunity	TCFD type	Type of financial impact	Time horizon	Likelihood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential impact (annually)
Risks from flooding and erosion	High precipitation causing river, surface water and/or groundwater flooding of assets	Physical	Increased operating and capital costs	◔	●●●○○	●●●○○	🟢
	High precipitation causing river bank erosion impacting assets	Physical	Increased operating and capital costs	◕	●●●○○	●●●○○	🔴
Risks from subsidence	Subsidence causing damage to assets	Physical	Increased capital costs	◕	●●●●○	●●●○○	🔴
	High temperature and low precipitation leading to failure of earth impounding reservoir	Physical	Increased operating and capital costs and potential fines	◕	●○○○○	●●●●○	🟡
Risks from failure of interdependencies	Climate-induced disruptions to energy and telecoms	Market	Increased operating costs	◕	●●●●○	●●○○○	🟢
	Disruption to supply of critical materials and equipment	Market	Increased operating costs	◔	●●●○○	●●●○○	🟢
Risk of household water supply interruptions	Extreme weather causing failures in production network	Physical	Increased operating and capital costs	◔	●●●○○	●●○○○	🟡
	Extreme weather causing failures in distribution network	Physical	Increased operating and capital costs and potential fines	◔	●●●○○	●●●○○	🟡
	High temperatures causing assets to fail in production and distribution networks	Physical	Increased operating and capital costs and potential fines	◕	●●●○○	●●○○○	🟢
	Wildfires causing damage to assets	Physical	Increased operating and capital costs	◔	●●●○○	●●○○○	🟢
Opportunity of using innovative approaches to construction of future assets	Replacement of current assets with lower emission or environmentally sustainable options	Physical	Lower operating costs and elimination of high capital costs	◑	●●●○○	●●●○○	🟡
Opportunity to be more energy efficient	Sourcing of more energy efficient solutions for managing treatment works	Physical	Lower operating costs and elimination of high capital costs	◑	●●●○○	●●●○○	🟡

Materiality Assessment

Last year we have conducted a materiality assessment in order to identify environmental, social, and governance (ESG) issues that matter most to our stakeholders. Led by the consultancy Sphera, the assessment supports the development of the company's ESG strategy that will integrate material aspects of sustainability into joint management and evaluation processes. The summary findings, as shown in the Materiality Matrix below, form an integral part of credible and transparent sustainability reporting.

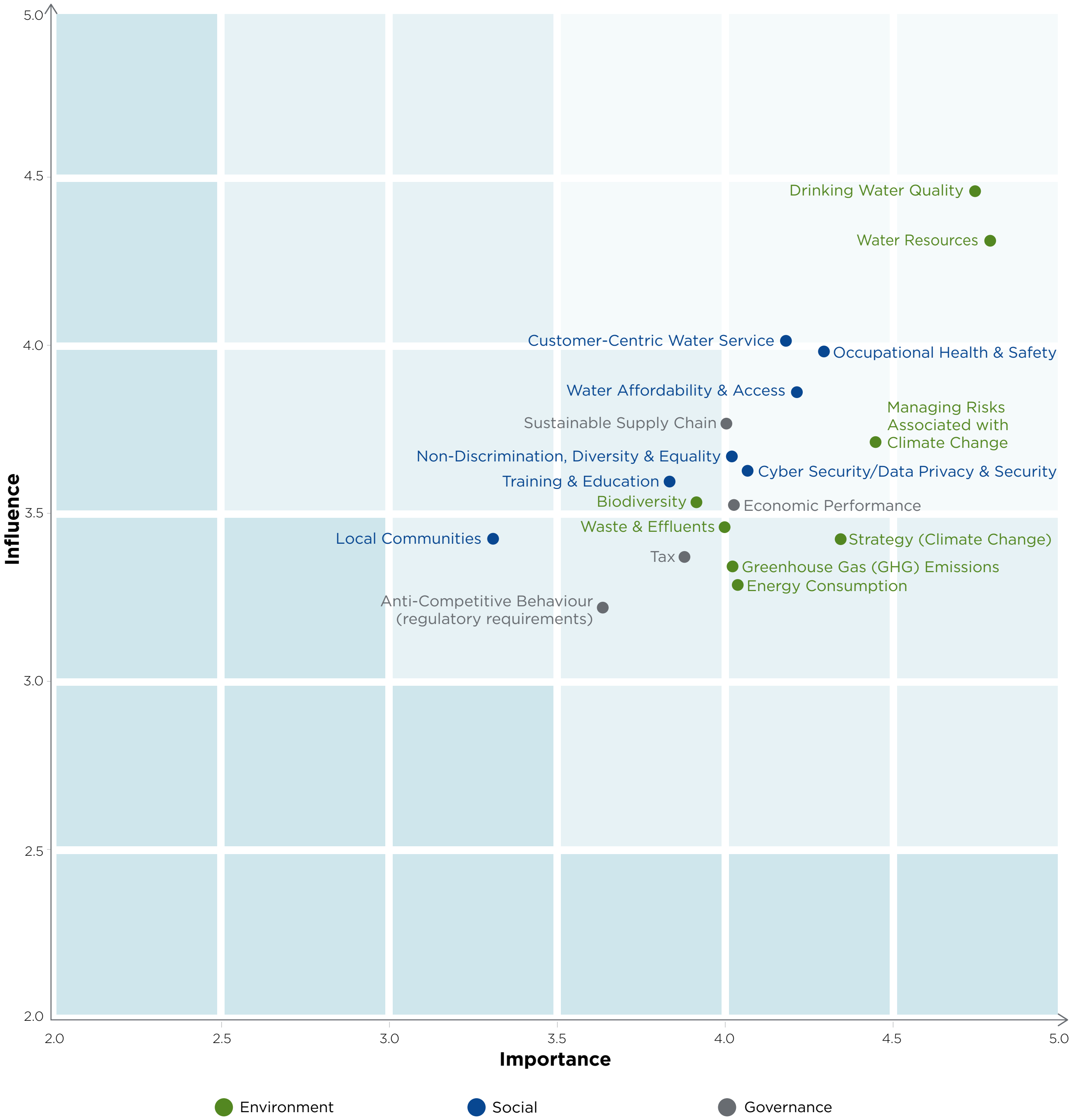
The assessment included surveys and detailed interviews taking place with a range of external and internal stakeholders during the summer of 2022. In total around 70 surveys and interviews were conducted, allowing us to better identify the relative significance of and influence on social, environmental and economic factors pertinent to the organisation.

Strong interdependencies were identified amongst social and environmental topics, providing confirmatory evidence that we have the right balance within our current business plan, and helping inform our strategy for the next 25 years and beyond.

Materiality Assessment key outcomes

- **Water resources and drinking water quality:** These topics were considered the joint highest priorities. Securing long-term water resources is crucial both for the environment and people. It is our core business, affecting all of our activities, as well impacting the community. Continuing to deliver water to customers at the appropriate high standard remains of prime importance, so too is the requirement to help protect the quality of raw water resources, themselves under pressure from point and non-point source pollution.
- **Customer centric water services:** Promote customer engagement to create awareness of water usage and its environmental impact, encourage and incentivise changing behaviour. Build a close relationship with customers to prepare for upcoming challenges, such as water shortages, energy shortages, and other potential incidents.
- **Water affordability and access:** Affordability and access to water has a positive impact on customers, especially those in vulnerable circumstances. Currently we are able to provide a reliable service, but we also need to consider that resources might be limited in the future due to climate-related impacts, issues related to consumption, and economical challenges.
- **Managing risks associated with climate change:** Climate change has a significant, direct impact on the availability of water and the resilience of our operations. In order to achieve long-term success, targeted investment to mitigate our impact on, and protect ourselves from the impact of, climate change is essential. Developing partnerships with relevant stakeholders is a vital part of this global issue.
- **Local communities:** Building partnerships with local communities, non-governmental organisations (NGOs), and local authorities is key in order to achieve a long-term positive impact.
- **Economic performance:** Economic performance has an effect on not just the company itself, but on our ability to contribute positively to the wider community. For example, investments to sustain the adaptation required to cope with climate change.

Materiality Matrix



The Strategic Report was approved by the Board of Directors on 14 July 2023 and signed on its behalf by Paul Kerr, Chief Financial Officer

UK Corporate Governance Code Index table

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

1.

Board leadership and Company purpose

The role of the Board is to provide leadership and to review the overall purpose and strategic development of the Company. The purpose of the Company is to 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.

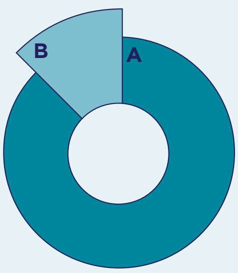
Independent non-executive directors

Rebecca Wiles
Non-executive director

Committee membership
A N R ES

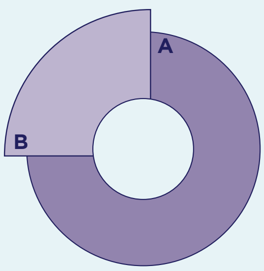
Skills and experience
Rebecca is a geoscientist by background and brings more than 30 years experience working in the energy industry for BP. During her career, she has held a number of executive roles most recently leading technology innovation, development and early deployment. She joined the Board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

Committee membership key

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

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.

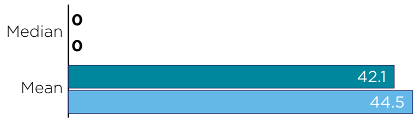
The differences in the total bonuses paid to the average (mean) or middle (median) man and the average or middle women expressed as a percentage of the man's total bonus.

Gender pay gap 2022 (%)

2022 2021

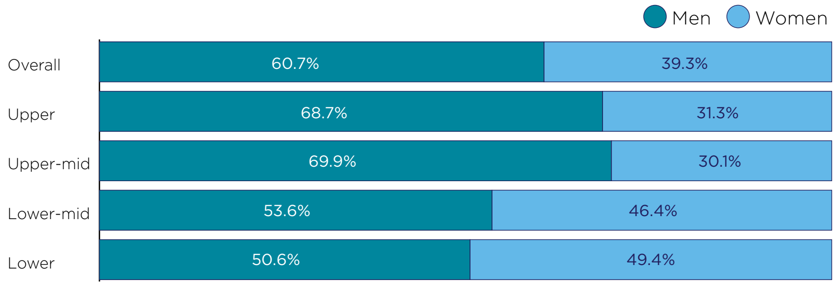
Bonus pay gap 2022 (%)

2022 2021



Pay quarters

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



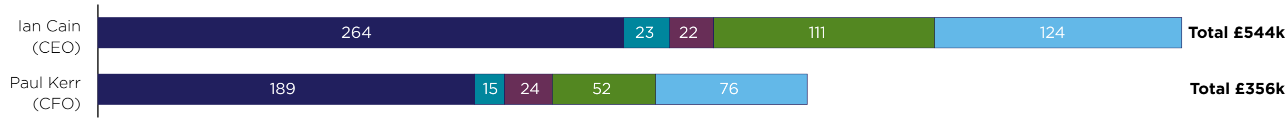
Gender split by role

	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)

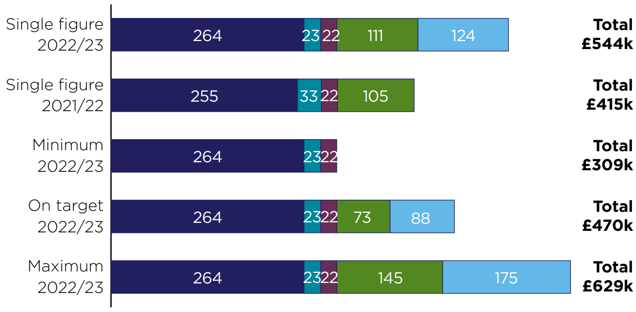


Single total figure of remuneration for executive directors for 2022/23 compared with performance scenarios

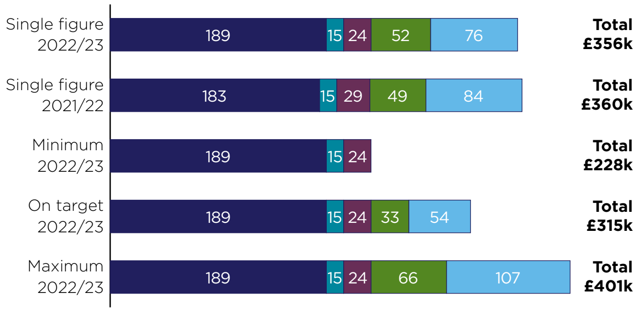
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits such as bonus and LTIP. The charts below show the relative split between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 104.

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 – Such progress will be achieved through effective totex spend to minimise leakage, supply interruptions and supply failures and efficient capex programmes to minimise unplanned outages and ensuring performance commitments are met. Digital resilience will be a key part of achieving this overall systems-based resilience	15%
Financial resilience	Ensure that customers benefit from a stable financial business that allows prioritisation of customer service – Outperformance of budget (allowing delivery to customers in an economically efficient manner) – Business plan financial covenant and gearing ratios are met – Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions	25%
Total weighting		**40%**

Customer service and support – 2022/23

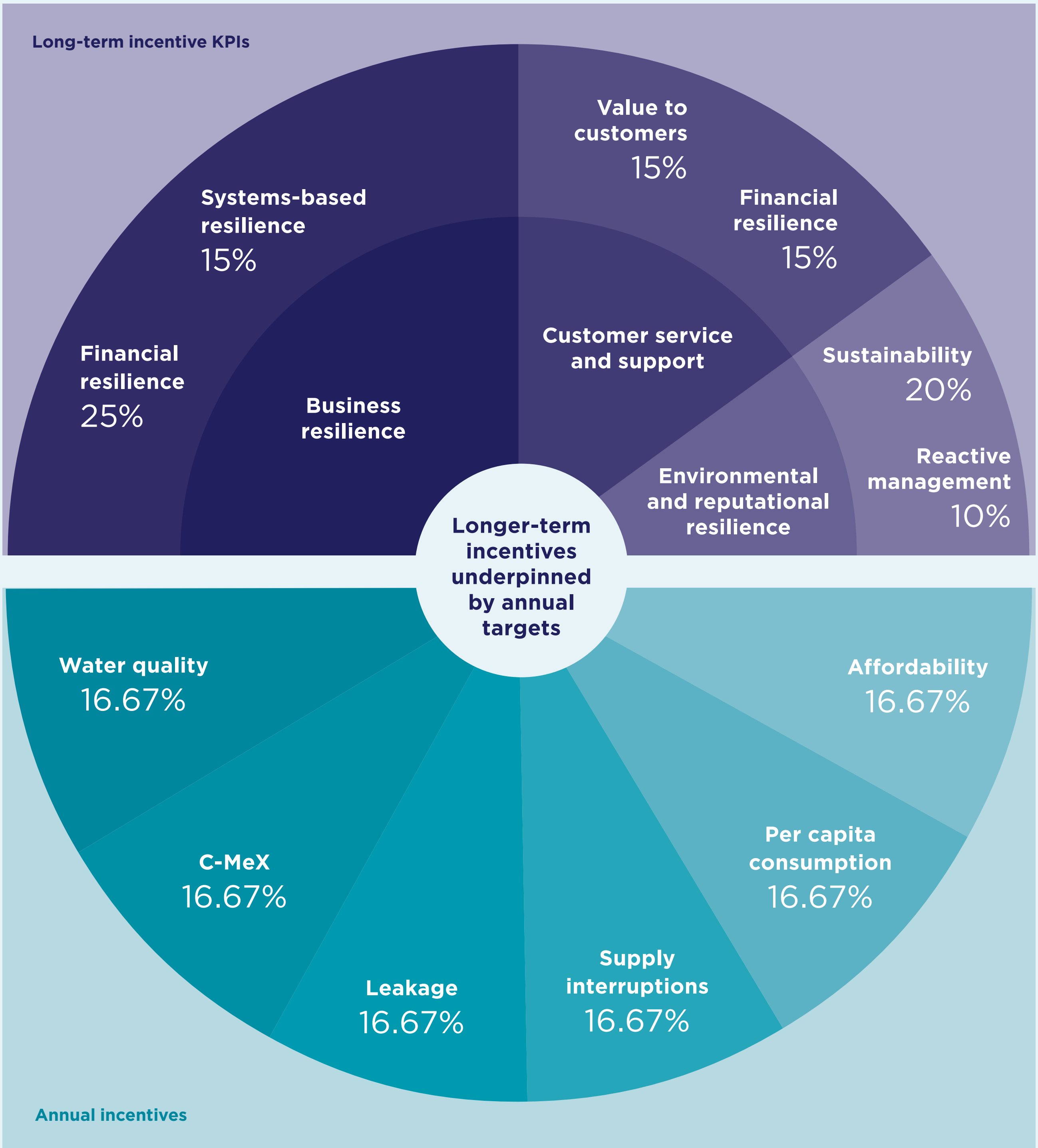
Target	Measurement criteria	Weighting
Value to customers	Development, deployment and delivery of a company-wide, cost effective customer plan that solidifies our position as a customer- orientated organisation and drives improvements in our C-MeX standing	15%
Financial hardship	Achievement of Social 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.

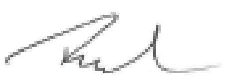
Corporate governance

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.

Independent auditor's report to the members of Sutton and East Surrey Water Plc

Report on the audit of the financial statements

Opinion

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2023 (the "Annual Report"), which comprise: the balance sheet as at 31 March 2023; the profit and loss, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee of the company.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity. The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

Key audit matters

- Assessment of recoverability of household trade debtors.
- Accuracy of measured income accrual.
- Salary cost capitalisation.

Materiality

- Overall materiality: £600,000 (FY22: £392,500) based on approximately 0.13% of total assets (FY22: 1.7% adjusted profit before tax).
- Performance materiality: £450,000 (FY22: £294,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Salary cost capitalisation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Assessment of recoverability of household trade debtors – Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £9.1m as at 31 March 2023 (2022: £7.8m) (refer to Note 16 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. There is judgement around whether to apply overlays to the calculation; this will be necessary where there is evidence that future cash collections will not be faithfully represented by historic losses per the calculation. For FY23, Management have not considered it necessary to build in any such overlays. – The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	**Our procedures included:** – Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101. – Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions. – Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. – Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. – Challenging the appropriateness of not applying overlays to the calculation for FY23. – Sample testing the underlying data underpinning the historical cash collection rates, and validating the integrity of the aged debt report by sample testing to invoices. – Checking that the ECL was applied to all relevant household receivable categories, including accrued income. – Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements. – We also considered whether there was any Management bias in how the assumptions and estimates had been derived. – Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.
Accuracy of measured income accrual Management have recorded a measured income accrual of £8.4m (2022: £7.9m), (refer to Note 3.1 of the financial statements), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit. This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the Company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: (i) agreeing the last meter read date to source data on a customer level; (ii) performing a recalculation of the number of days since the last meter read date to year-end; (iii) recalculating the daily average consumption rate based on the last three meter readings, comparing the recalculated average against the detailed listing; and iv) testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2023. In addition, we obtained a look-back assessment from Management, which compares the FY22 accrued income by customer against the amounts subsequently billed for FY22, noting the FY22 accrual to have been materially accurate. We performed sample testing to verify that the inputs to the model (i.e. the subsequent bill and FY22 accrual) agreed to source data. Our results: We found Management's estimation of the measured income accrual to be acceptable.

Financial Statements continued

Key audit matter	How our audit addressed the key audit matter
Salary cost capitalisation Management have capitalised £3.6m of salaried staff costs in the year (FY22: £1.9m) (refer to note 6 of the financial statements). Per IAS 16, Property, plant and equipment, costs of employee benefits arising directly from the construction or acquisition of an item of property, plant and equipment may be capitalised. However, there is some judgement in the determination of those employee costs which are directly versus indirectly related to construction. Management perform a quarterly assessment on a role-by-role basis, with input from line managers, to determine the proportion of time each employee has spent on capital projects, as well as which projects they have been working on. This percentage is then applied to the total cost of this employee during the period, to determine the capitalisation value for the quarter. The increase in the year is a result of Management capitalising costs of a broader range of employees and, in some cases, re-evaluating the capitalisation percentages applied to these roles to a higher value. This area is considered a key audit matter given the significant increase in capitalisation of costs and therefore the heightened risk of material misstatement, as well as the judgement inherent in the estimation.	We have obtained Management's capital salary recharge calculation on an employee-by-employee basis, as well as Management's accounting paper on the matter. This accounting paper provides an explanation for each role capitalised; what the role involves which is deemed to be capital in nature and justification for the proportion applied. We have critically reviewed this paper based on our knowledge of the business and provided challenges for a number of roles, for which we were subsequently provided additional support for the treatment given. We further performed the following procedures over the calculation for a sample of employees: (i) Agreeing payroll costs to audited payroll records (ii) Gaining an understanding for each individual employee of what they have worked on over the year and; (iii) holding interviews with line managers to verify the information given. In addition, we have performed benchmarking procedures to compare the proportion of salary costs capitalised as a proportion of total expenditure against other companies within the industry. Our results: the roles capitalised are sufficiently supported as directly attributable to capital works, and the calculation deemed accurate. Further, the Company benchmarks within the middle range of a sample of water companies assessed in relation to the proportion of salary costs capitalised.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The company has one finance function, based in the UK, and no shared service departments.

The impact of climate risk on our audit

As part of our audit, we have made enquiries of Management to understand its process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the Environmental, Social and Governance (ESG) Committees throughout the year, in addition to attending one such Committee meeting. While Management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2023. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£600,000 (FY22: £392,500).
How we determined it	Approximately 0.13% of total assets (FY22: 1.7% adjusted profit before tax)
Rationale for benchmark applied	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Sutton and East Surrey Water Plc is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we determined that the total asset base is the most appropriate benchmark, aligned to the key focus of the Board and its Shareholders on the maintenance and investment in the infrastructure it owns and operates. We also concluded that total assets is a less volatile measure compared to revenue and profit based measures. For FY22 a profit-based measure was used. However, due to this volatility, and for the reasons given above, we have changed to an asset-based benchmark for FY23. For Public Interest Entities (PIEs) a percentage of up to 1% of total assets is typical. However, we have considered other benchmarks (such as revenue and profit before tax) and lowered the percentage down from this typical level of 1% of total company assets to approximately 0.13%, which we deemed to be most appropriate materiality and more suitable for the size and scale of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY22: 75%) of overall materiality, amounting to £450,000 (FY22: £294,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee of the company that we would report to them misstatements identified during our audit above £30,000 (FY22: £19,625) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following:

- Initial discussions with Management and the Audit Committee to understand the going concern risks facing the company, which predominantly related to uncommitted funding requirements over the going concern assessment period, with such additional funding being required for the purpose of both liquidity and in order to meet debt covenant requirements.
- Review of Management's cash flow and covenant ratio forecasts, which included verifying the mathematical accuracy and performing reasonableness checks of key assumptions (such as capital spend, revenue growth and cost inflation). This allowed for the total uncommitted funding requirement over the 12 month going concern forecast period to be known, both on a base case and on severe but plausible downside scenarios.
- Reviewing the letters of support from the ultimate shareholders to verify that the appropriate level, nature and duration of commitment was included.
- Holding meetings with the ultimate shareholders to verify that; appropriate approvals had been granted for the letters to be signed, the funding requirements of Sutton and East Surrey Water Plc were well understood (both on a base case as well as severe but plausible downside scenarios), that there were no significant conditions associated with the support committed; and, that there were sufficient cash resources available to the shareholders to provide the necessary support.
- Inspection of most recent audited or reviewed financial accounts of the shareholders to verify that sufficient resources exist such that the necessary commitment could be issued.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Financial Statements continued

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- the directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Annual Report describing the work of the Audit Committee of the company.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as The Companies Act 2006 and UK Corporation Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and Management bias in accounting estimates. Audit procedures performed by the engagement team included:

- enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- evaluation of Management's controls to prevent and detect irregularities;
- challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors, accuracy of the measured income accrual and capitalisation of salary costs, including the disclosure of such matters in the financial statements;
- identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, or journals with certain key unusual words; and
- incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Financial Statements continued

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee of the company, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2020 to 31 March 2023.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

14 July 2023

Profit and loss for year ended 31 March

	Notes	2023 £'000	2022 £'000
Revenue	5	**67,446**	62,953
Operating costs	6	**(62,818)**	(56,607)
Other operating income	7	**1,097**	3,358
Net impairment (losses)/write-backs on financial and contract assets	16	**(1,458)**	449
Operating profit		**4,267**	10,153
Finance income	9	**855**	368
Finance costs	9	**(30,612)**	(15,923)
Finance costs – net		**(29,757)**	(15,555)
Loss before income tax		**(25,490)**	(5,402)
Income tax credit/(expense)	10	**5,979**	(11,935)
Loss for the year		**(19,511)**	(17,337)

Statement of comprehensive income for the year ended 31 March

	Notes	2023 £'000	2022 £'000
Loss for the year		**(19,511)**	(17,337)
Other comprehensive (expense)/income:			
Items that will not be classified to profit or loss			
Actuarial (loss)/gain on pension scheme	20	**(17,248)**	5,658
Movement on deferred tax relating to pension scheme	19	**4,312**	(983)
Total comprehensive expense for the year		**(32,447)**	(12,662)

Financial Statements continued

Balance sheet as at 31 March

	Notes	2023 £'000	2022 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**9,659**	9,721
Property, plant and equipment	12	**369,840**	358,094
Right-of-use assets	12	**816**	623
Pension asset	20	**9,211**	26,265
		392,613	397,790
Current Assets			
Inventories	14	**377**	286
Trade and other receivables	15	**27,758**	25,184
Contract assets		**5,862**	5,594
Cash and cash equivalents	25	**38,957**	24,102
		72,954	55,166
Total Assets		**465,567**	452,956
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(272,853)**	(234,304)
Lease liabilities	13	**(530)**	(412)
Deferred tax liabilities	19	**(43,724)**	(54,543)
Pension deficit	20	**(802)**	(972)
		(317,909)	(290,231)
Current Liabilities			
Borrowings	18	**(22,000)**	–
Trade and other payables	17	**(42,710)**	(38,968)
Contract liabilities		**(5,366)**	(5,723)
Lease liabilities	13	**(307)**	(212)
		(70,383)	(44,903)
Total Liabilities		**(388,292)**	(335,134)
Net Assets		**77,275**	117,822
EQUITY			
Called up share capital	21	**51,489**	51,489
Profit and loss account		**25,786**	66,333
Total Equity		**77,275**	117,822

The financial statements on pages 123 to 151 were approved by the Board of Directors on 14 July 2023 and signed on its behalf by

Ian Cain
Chief Executive Officer

Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

Statement of changes in equity for the year ended 31 March 2023

	Notes	Called up share capital £'000	Profit and Loss account £'000	**Total Equity £'000**
Balance at 1 April 2021		51,489	82,511	134,000
Loss for the year		–	(17,337)	(17,337)
Actuarial gains on pensions scheme	20	–	5,658	5,658
Movement on deferred tax relating to pension scheme	19	–	(983)	(983)
Total comprehensive expense for the year		**–**	**(12,662)**	**(12,662)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(3,516)	(3,516)
Transactions with owners recognised directly in equity		**–**	**(3,516)**	**(3,516)**
Balance at 31 March 2022		**51,489**	**66,333**	**117,822**
Loss for the year		–	(19,511)	(19,511)
Actuarial loss on pensions scheme	20	–	(17,248)	(17,248)
Movement on deferred tax relating to pension scheme	19	–	4,312	4,312
Total comprehensive expense for the year		**–**	**(32,447)**	**(32,447)**
Transactions with owners in their capacity as owners:				
Dividends paid	22	–	(8,100)	(8,100)
Transactions with owners recognised directly in equity		**–**	**(8,100)**	**(8,100)**
Balance at 31 March 2023		**51,489**	**25,786**	**77,275**

Financial Statements continued

Cash flow statement

Year ended 31 March	Notes	2023 £'000	2022 £'000
Loss for the year		**(19,511)**	(17,337)
Adjustments for:			
Finance income	9	**(855)**	(368)
Finance costs	9	**30,612**	15,923
Proceeds from insurance claims		**-**	(1,970)
Net impairment losses on financial and contract assets	16	**1,458**	–
Depreciation of property, plant and equipment	12	**12,497**	11,901
Depreciation of right-of-use assets	12	**252**	149
Amortisation of intangible assets	11	**899**	660
Gain on disposal of property, plant and equipment		**(79)**	(1,283)
Loss on disposal of intangible assets		**-**	76
Section Expenses		**365**	-
Increase in inventories		**(92)**	(59)
Increase in trade and other receivables		**(5,483)**	(4,868)
Increase in trade and other payables		**1,554**	1,254
Increase in amounts due to related companies		**(777)**	(451)
Income tax (credit)/ expense	10	**(5,979)**	11,935
Interest paid		**(8,174)**	(5,846)
Income taxes refunded		**1,512**	–
Net cash generated by operating activities		**8,199**	9,716
Investing activities			
Proceeds from insurance claims		**-**	2,225
Purchase of property, plant and equipment	12	**(22,499)**	(23,630)
Principal elements of lease payments	12	**(246)**	(504)
Purchase of intangible assets	11	**(776)**	(2,482)
Proceeds from sale of property, plant and equipment		**105**	1,324
Interest received	9	**172**	368
Net cash used in investing activities		**(23,244)**	(22,699)
Financing activities			
Proceeds of RCF	18	**20,000**	15,000
Proceeds of Shareholders loan	18	**7,000**	–
Repayment of RCF	18	**(4,000)**	–
Dividends paid	22	**(8,100)**	(3,516)
Net cash from Financing activities		**14,900**	11,484
Net increase/(decrease) in cash and cash equivalents		**(145)**	(1,499)
Net cash and cash equivalents at the beginning of the year		**24,102**	25,601
Net cash and cash equivalents net of bank overdraft		**23,957**	24,102

Notes to the Financial Statements

1 General information

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its license and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited Company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ, United Kingdom.

According to the licence conditions under which the Company operates as a water only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with The Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of Financial Statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, Plant and Equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of Financial Statements':
  - 16 (statement of compliance with all IFRS);
  - 38B-D (additional comparative information);
  - 40A (requirements for a third balance sheet); and
  - 111 (statement of cash flows information).
- Paragraphs 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related Party Disclosures' (key management compensation).
- The requirements in IAS 24, 'Related Party Disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers':
  - 110 (disclosure requirements);
  - 113(a) (separate sources of revenue);
  - 115 (disaggregated of revenue);
  - 118 (explanation of changes in contract assets and liabilities);
  - 120 to 121 (transaction price allocated to the remaining performance obligations); and
  - 129 (practical expedients).

2.1.1 Going concern

The Company meets its day-to-day working capital requirements through a mix of cash reserves, borrowings and for this going concern period an equity injection of £22m. The current economic conditions continue to create volatility inflation in particular to the increased levels of gearing from the RPI long term index linked bond. The Company's forecasts and projections, taking account of severe but plausible possible changes in trading performance.

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) which including making available £22m in aggregate in the form of equity injections to the Company over the next 12 months. Such equity injections allows the Company to deliver its capital program 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.

The high levels of RPI linked inflation, the cost of living crisis and pressures on gearing continue to challenge the Company however it still remains financially resilient and has enough headroom to be able to meet its cash and debt covenant requirements for at least the next 18 months from the date of approval of these financial statements. Further details of consideration outlined in page 84.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2023 that have a material impact on the Company's financial statements.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

In May 2021, the International Accounting Standards Board ('IASB') published Deferred Tax related to Assets and Liabilities arising from a Single Transaction which clarifies how companies account for deferred taxes on transactions such as leases. Under the new amendment entities should recognise as deferred tax assets (to the extent probable for utilisation) and deferred tax liabilities for all deductible and taxable temporary differences associated with right of use assets and lease liabilities and decommissioning, restoration and similar liabilities. The effective date for application of this amendment is for annual periods beginning on or after 1 January 2023 and early adoption is permitted. The guidance is to be applied retrospectively at the point of adoption.

The Company has evaluated the impact of the new guidance on the financial statements and do not expect these to have a material impact.

2.2 Consolidation

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly owned subsidiary of SESW Holding Company Limited, wholly owned by East Surrey Holdings Ltd, and of its ultimate parent, Sumisho Osaka Gas Water UK Limited. It will be included in the consolidated financial statements of East Surrey Holdings Limited which will be publicly available from their registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It will also be included in the consolidated financial statements of Sumisho Osaka Gas Water UK Limited which will be publicly available from their registered office, Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'pounds sterling' (£), which is also the Company's functional currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 Property, plant and equipment

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant and equipment:

- **Land**
- **Collections reservoir**

This is the Company's primary reservoir for collecting fresh water.

- **Buildings, including treatment works, service reservoirs and boreholes**

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

- **Mains network**

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement or additional mains to the network. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced or in most cases a new main is laid in addition to the original, it is considered replacement work and associated costs are capitalised. Given the historic aging of the network, it is not always possible to identify the pipe on the fixed asset register as an individual element and therefore is not individually written off.

The relining of a main is the work needed to keep a main in good condition and is maintenance so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

- **Plant and machinery (heavy)**

Heavy plant and machinery consist of heavy plant used on the course of construction such as excavators, as well as water treatment equipment and water pumps.

- **Motor vehicles**

This balance includes those motor vehicles such as cars and vans.

- **Sundry plant**

Sundry plant consists of small tools used in construction as well as the Company's IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company and capitalisation of employee time and other expenses incurred by central functions working on the capital programme where a management judgement is applied relating to the estimation of time spent on the capital programme to derive an estimated percentage recharge to capital. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised as property, plant and equipment are included within 'Purchase of property, plant and equipment' within investing activities in the statement of cash flows.

All other borrowing costs are included as finance expenses within the profit and loss account. During the year no interest was capitalised by the company (2022: £nil)

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in IAS 23, 'Borrowing Costs' Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

- **The project needs to go on for longer than a year**

Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

- **Ongoing programmes in the ordinary course of business are excluded (i.e., metering and directly managed spend such as network maintenance activity)**

Much of the Company's ongoing capital investment programme qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

- **Must not include developer services capital expenditure as that is separately funded.**

As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
– Land	**n/a**
– Collections reservoirs	**140-150**
– Buildings including boreholes and service reservoirs	**50-100**
– Mains network	**100**
– Plant and machinery (heavy)	**10-25**
– Motor vehicles	**5**
– Sundry plant	**3-10**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

2.5 Intangible assets and goodwill

2.5.1 Software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between five and fifteen years.

2.5.2 Internally generated intangible assets – Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 Impairment of goodwill

The recoverable amount of the cash-generating unit has been calculated using the fair value less disposal cost (FVLDC) method, using a discounted cash flow calculation based on the most recent financial projections available for the business. As customary practice for the UK water industry, management has used a forecast period of 25 years, in line with the notice period a water company has to be given before it can stop providing the regulated service. An exit multiple is then applied to the regulatory capital value at that time to determine the terminal value. Both elements are then discounted based on a pre-tax nominal rate to derive the estimated fair value, from which an estimated disposal cost is deducted to derive fair value less disposal cost.

As a regulated water company, the revenues and costs are significantly influenced by the regulatory settlement for each AMP period. Key assumptions for AMP 7 are consistent with Ofwat's PR19 Final Determination.

Cash flows beyond the end of the current AMP period are extrapolated using an assumed growth rate in the Group's regulatory capital base.

Key assumptions	**2023**	2022
Exit regulatory capital value multiples	**1.20**	1.15
Discount rate	**6.1%**	4.7%
Inflation RPI	**3%**	3%
Inflation CPI	**2%**	2%

These cash flows have included estimated costs of meeting climate change challenges, such as additional capex required to meet net zero carbon targets and related asset enhancements which will be considered in AMP 8 for pricing determination.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 Financial assets

Financial assets can be classified as all being held at:

- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

The classification depends on the purpose for which the financial assets were acquired i.e., the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 Financial assets at amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

2.9 Impairment of financial assets
The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted, or the cost of recovery is considered to be disproportionate to the value of the debt.

2.10 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the WTW. The cost are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Management recognises a provision for obsolete stock as follows:

- Between one and two years – 50%
- Two years and older – 100%

2.11 Trade and other receivables
Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore recognises them initially as current assets at fair value, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets (standard payment terms are 30 days, so this is not applicable in the ordinary course of business). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers but not yet invoiced have substantially the same risk characteristics as the trade receivables for the same types of contracts.

The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £5.9m (2022: £5.6m) as a result of unbilled measured household income.

2.12 Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short term highly liquid investments with maturities of less than three months, and bank overdrafts.

Included in the cash and cash equivalents is a restricted cash balance (note 25) owned by the Company relating to the secured index-linked bond.

The cash and cash equivalents line on the cashflow statement is presented net of overdrafts.

2.13 Payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

During the year ended 31 March 2022, the Company agreed an amendment to certain terms within its £100m collateral bond deed.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

Consistent with IFRS 9, where there is a modification of debt, management performs an assessment to determine whether this is a substantial or non-substantial modification. This is determined by reference to the '10% test' (i.e. whether the present value of new cash flows differ by more than 10% to the original present value of cash flows) as well as qualitative factors.

The modification was deemed to be non-substantial. Therefore 'modification accounting' treatment has been followed, with the liability restated to present value using the original effective interest rate. The difference between the old and new liability recognised as a charge to the Profit & Loss account in year ended 31 March 2022. The liability continues to be held at amortised cost.

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that a employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 Provisions

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- the amount has been reliably estimated.

No such provision was required in FY23 or FY22. Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company's activities are described in detail below.

The core principles of IFRS 15, 'Revenue from Contracts with Customers' are:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Company considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (note 3.5).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six-monthly in arrears (see note 3.1).

The Company has applied this framework to its revenue streams as follows:

2.19.1 Water revenue (appointed income) – household and wholesale revenue

The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company's customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers consumption of water.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (measured supply) or not (unmeasured supply). In certain specific circumstances, usually when the customer has requested a water meter, but we are physically unable to fit one to the customer's property, a customer may be placed on an assessed tariff (unmeasured supply). The process for revenue recognition for customers on an assessed tariff is the same as that for unmeasured customers.

For unmeasured supply of water services, the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.1). Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 Empty properties – household revenue

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

2.19.3 Developer services (appointed income) – other water revenue

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of developer services charges are available on the Company's website and described below:

2.19.3.1 Network extensions

Network extensions relate to the Company laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

2.19.3.2 Service connections

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see note 2.24) for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the tariff, with the Company's performance commitment being to connect the property to the Company's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Company's network and revenue is recognised when this connection is made.

2.19.3.3 Diversions

Diversions are when the Company moves our assets at the request of a developer or another party. These are contractual arrangements with the Company's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

2.19.3.4 Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network, based on a tariff. The charges are designed to cover the cost of network reinforcement work to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Company considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for the infrastructure charge is between the Company and the developer who is not necessarily the party that will ultimately benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Company expects to receive based on the tariff rate.

It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when all the new connections are made and so revenue is recognised at that point.

2.19.4 Commission income – non-appointed income

Commission revenue from other regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when the Company collects monies from customers on behalf of the other regulated companies. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other Company. The commission is paid based on the amount of debt collected and then transferred, with the Company recognising the revenue when the performance obligation is satisfied (the cash being transferred).

2.19.5 Garage revenue – non-appointed income

The Company receives a revenue for the servicing, repair, and MOT facilities to third parties by the Company's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

2.20 Interest income/expense

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 Leases

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of 5 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, currency and security.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand pounds sterling, unless otherwise stated.

2.24 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

Contract liabilities have decreased to £5.4m (2022: £5.7m) mainly due to movement in the money received in advance from customers that will be passed to Thames Water upon billing.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £5.7m as all the money received in advance at 31 March 2023 has been billed in the current financial year.

2.25 Insurance receipts

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cash flow management consider the nature of the transaction:

- Insurance receipts relating to damaged PPE represent 'in substance' a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.26 Managing risk

2.26.1 Credit risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meet its obligations.

2.26.2 Interest risk

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.

The £100.0m long-dated inflation linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company.

The bond was issued on 21 March 2001, carrying a AAA rating, and is secured upon the shares of Sutton and East Surrey Water Plc. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.

Unamortised issue costs of £3.7m (2022: £4m) are netted against the carrying value of the bond and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate.

The Company also has access to borrowings in the form of a current account overdraft and access to two revolving credit facilities (RCF). Overdraft interest rates are tracked to base rate plus a margin, and RCF interest is at a margin above SONIA.

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the variable rate debt (e.g. revolving credit facility) at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurs at the balance sheet date and has been applied to risk exposures at that date.

The analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for the prior year.

As at year ended 31 March	2023 £'000	2022 £'000
Equity		
Increase	**(681)**	(473)
Decrease	**681**	473
Profit before tax		
Increase	**(681)**	(473)
Decrease	**681**	473

2.26.4 Liquidity risk

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below:

As at year ended 31 March	2023 £'000	2022 £'000
Maturities		
Between one and two years	**113,060**	59,000
More than five years	**159,793**	175,304
	272,853	234,304

The facilities available at the balance sheet date are unsecured. Current unutilised facilities available to the Company are set out below:

As at year ended 31 March	2023 £'000	2022 £'000
Expiring		
In less than one year	**-**	1,000
Between one and two years	**-**	–
More than five years	**1,000**	16,000
Total	**1,000**	17,000

2.27 The impact of climate change

The water industry plays a key role on the impact of climate change and management of climate related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the good will impairment system. The financial reporting impact from the physical and transitional risks of climate change can be shown on page pages 68 and 69.

Financial Statements – Notes to the Financial Statements continued

3 Critical judgements and estimates in applying the entity's accounting policies

The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required in the preparation of these financial statements are:

3.1 Estimate – Unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. The unbilled measured income accrual was £8.4m (2022: £7.9m)

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £430k (2022: £380k).

3.2 Estimate – Defined benefit pension scheme

The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in note 20.

With effect from 31 March 2023, the trustees of the scheme invested in a buy-in policy minimising the risk on any market movements to the Company.

3.3 Estimate – Provision for doubtful debt

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write-off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for.

The COVID-19 pandemic and subsequent cost of living crisis has an impacted the ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. Despite increasing its cash collection activities both in house and through external debt collection agencies, the level of debt owed by customers has increased and as a result an increase of £1.5m was applied to the bad debt provision at 31 March 2023.

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects.

Management is required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised, this includes an element of employee costs where the individuals contributes to the overall capital programme but not specifically on an individual project, an estimation of time spent on capex related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least three years. This resulted in derecognising £0.3m of revenue in FY23, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would decrease and increase revenue derecognition by £0.3m and £0.3m respectively.

4 Segmental information

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker (CODM) of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The appointed and non-appointed businesses are reviewed and reported separately; further details are included in our regulatory accounts and Annual Performance Review.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey West Sussex West Kent and South London). Management considers the UK to be the geographical location of business.

5 Revenue

Year ended 31 March	2023 £'000	2022 £'000
Measured water revenue (household)	**31,476**	28,461
Unmeasured water revenue (household)	**20,850**	20,562
Total household revenue	**52,326**	49,023
Wholesale revenue from retailers (non-household)	**9,662**	7,726
Non-water revenue	**778**	817
Other water revenue	**2,303**	3,090
Non-appointed income	**2,377**	2,297
Total revenue	**67,446**	62,953

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale) customers.

During the year ended 31 March 2023 water volumes sold to both household and non-household customers increased, this was partially driven by an increase in wholesale volumes used as business returned back to levels seen prior to the pandemic and a hotter and dryer summer increasing consumption. These increased volumes impact both measured household and non-household revenues. Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue.

A 4% tariff increase across both measured and unmeasured increased revenues compared to prior year.

6 Operating costs

Operating profit is stated after charging:

Year ended 31 March	Notes	2023 £'000	2022 £'000
Wages and salaries		**11,835**	11,960
Social security costs		**1,781**	1,504
Other pension costs	20	**2,006**	1,905
Employee costs		**15,622**	15,369
Power		**6,821**	6,617
Raw materials and consumables		**4,030**	3,285
Rates		**3,468**	3,467
Subcontractors		**6,875**	6,025
Insurance		**1,064**	987
Other operating costs		**8,388**	6,045
Depreciation charge on property, plant and equipment	12	**12,497**	11,901
Depreciation of right-of-use assets	12	**252**	149
Amortisation charge on intangible assets	11	**899**	660
Legal and professional fees (excluding auditor's fees)		**2,363**	1,639
Fees payable to the Company auditor for the audit of annual financial statements		**434**	344
Fees payable to the Company's auditors and associates for other services:			
– Audit of regulatory financial statements		**55**	50
– Other assurance services		**50**	69
Operating costs		**62,818**	56,607

The 2022 audit fee has been restated to include an overrun fee following completion of the FY22 financial statements.

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year, wages and salaries of £3,629,472 (2022: £1,915,985) were capitalised to fixed assets.

Net operating costs can be analysed as

	2023 £'000	2022 £'000
Cost of sales	**45,709**	40,623
Administration expenses	**17,109**	15,984
	62,818	56,607

Financial Statements – Notes to the Financial Statements continued

7 Other operating income

Year ended 31 March	2023 £'000	2022 £'000
Proceeds from insurance claims	**–**	1,970
Other operating income	**1,018**	105
Profit on sale of fixed assets	**79**	1,283
Other operating income	**1,097**	3,358

8 Employees and directors

The average number of employees in the year was:

Year ended 31 March	2023 number	2022 number
Operations	**177**	159
Retail	**79**	87
Support	**89**	95
Other	**1**	1
Total	**346**	342

Director's emoluments

Directors' emoluments for the year were as follows:

Year ended 31 March	2023 £'000	2022 £'000
Aggregate emoluments	**1,092**	955
Aggregate amounts receivable under long-term incentive schemes	**200**	84

Highest paid director

The highest paid directors' emoluments were as follows:

Year ended 31 March	2023 £'000	2022 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**544**	415

9 Interest income and expense

Year ended 31 March	2023 £'000	2022 £'000
Finance income		
Expected return on pension scheme assets	**3,124**	2,227
Interest paid on post-retirement liabilities	**(2,441)**	(1,862)
Other interest receivable	**172**	3
Total finance income	**855**	368
Finance expense		
Interest on index-linked bond	**5,547**	5,005
Indexation of bond	**22,111**	6,628
Bond fee amortisation	**569**	444
Other interest expenses	**2,385**	3,846
Total finance expenses	**30,612**	15,923
Net finance cost	**29,757**	15,555

During the year, the Company incurred £30.6m of finance costs (2022: £15.9m), mainly relating to accretion of the index-linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £15.5m increase in indexation costs due to a rise in the current year of the Retail Price Index (RPI) rate. In July 2021, the annual inflation change was 3.84%; in July 2022, it increased to 12.3%. Therefore, inflation increased by 220%, and the indexation charge increased by 234%.

10 Income tax expense

Year ended 31 March	Notes	2023 £'000	2022 £'000
Tax charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**-**	–
Adjustments in respect of prior periods		**528**	(64)
Total current tax		**528**	(64)
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**69**	31
Origination and reversal of temporary differences – other		**(2,207)**	(1,017)
Tax losses		**(2,664)**	–
Impact of change in tax rate		**(1,495)**	13,182
Adjustments in respect of previous years		**(210)**	(197)
Total deferred tax		**(6,507)**	11,999
Income tax (credit)/expense		**(5,979)**	11,935
Tax expense included in other comprehensive income/(expense):			
Deferred tax:			
Movement in relation to pension scheme	19	**4,312**	(983)
Total tax income/(expense) included in other comprehensive income		**4,312**	(983)

Tax income/(expense) for the year is higher (2022: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2023 of 19% (2022: 19%). The differences are explained below:

	2023 £'000	2022 £'000
Loss before taxation	**(25,489)**	(5,402)
Loss multiplied by the standard rate of tax in the UK of 19% (2022: 19%)	**(4,843)**	(1,026)
Effects of:		
Expenses not deductible for tax purposes	**41**	41
Income not taxable	**-**	(374)
Remeasurement of deferred tax – change in UK tax rate	**(1,495)**	13,182
Adjustments to tax charge in respect of previous years	**318**	(262)
Rolled over gains	**-**	374
Tax (credit)/charge	**(5,979)**	11,935

The standard rate of UK corporation tax for the year ended 31 March 2023 is 19%.

The Finance Act 2021 enacted on 10 June 2021 increased the main rate of UK corporation tax from 19% to 25%, effective from 1 April 2023. Deferred taxes on the balance sheet have been measured at 25% (2022: 25%), which represents the future corporation tax rate that was enacted at the balance sheet date.

Financial Statements – Notes to the Financial Statements continued

11 Intangible assets

	Goodwill £'000	Software £'000	Work in Progress £'000	Total Software and Work in Progress £'000
Cost:				
At 1 April 2022	19,454	11,979	1,404	**13,383**
Additions	–	–	837	**837**
Transfer	–	1,875	(1,875)	**-**
As at 31 March 2023:	**19,454**	**13,854**	**366**	**14,220**
Accumulated amortisation and impairment:				
At 1 April 2022	16,367	3,662	–	**3,662**
Amortisation	–	899	–	**899**
As at 31 March 2023:	**16,367**	**4,561**	**-**	**4,561**
Net book Value 31 March 2023	**3,087**	**9,293**	**366**	**9,659**
Net book Value 31 March 2022	3,087	8,317	1,404	**9,721**

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £441k (2022: £505k) and has a remaining amortisation period of six years (2022: seven) on a straight-line basis. Aptumo, our new billing system, went live in October 2021 and is used for all customer service operations and billing management. The asset is carried at £6.9m (2022: £6.5m) and has a remaining amortisation period of 14 years (2022: 15) on a straight-line basis.

12 Property, plant and equipment, and right-of-use assets

	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes and service reservoirs) £'000	Mains network £'000	Plant and Machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	Total £'000	Right-of-use assets £'000	Total £'000
Cost:											
At 1 April 2022	5,074	2,533	136,270	260,546	155,907	3,554	7,350	21,624	**592,858**	849	**849**
Additions	–	–	–	–	–	–	–	24,269	**24,269**	445	**445**
Transfer	23	–	884	17,524	19,077	–	156	(37,664)	**-**	–	**-**
Disposals	–	–	–	–	–	(239)	–	–	**(239)**	–	**-**
As at 31 March 2023:	**5,097**	**2,533**	**137,154**	**278,070**	**174,984**	**3,315**	**7,506**	**8,229**	**616,888**	**1,294**	**1,294**
Accumulated amortisation and impairment:											
At 1 April 2022	–	462	42,234	97,982	86,038	2,837	5,211	–	**234,764**	226	**226**
Depreciation charge	–	22	2,698	2,039	6,981	248	509	–	**12,497**	252	**252**
Disposals	–	–	–	–	–	(213)	–	–	**(213)**	–	**-**
As at 31 March 2023:	**-**	**484**	**44,932**	**100,021**	**93,019**	**2,872**	**5,720**	**-**	**247,048**	**478**	**478**
Net book value 31 March 2023	**5,097**	**2,049**	**92,222**	**178,049**	**81,965**	**443**	**1,786**	**8,229**	**369,840**	**816**	**816**
Net book value 31 March 2022	5,074	2,071	94,036	162,564	69,869	717	2,139	21,624	**358,094**	623	**623**

Land comprises freehold land at £5,056k (2022: £5,033k) and long leasehold land at £41k (£2022: £41k).

13 Leases liabilities

The Company has lease contracts for Company vehicles, the balances of which are included under 'right-of-use assets' in note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

The balance sheet shows the following amounts relating to leases:

As at 31 March	2023 £'000	2022 £'000
Right-of-use assets		
Vehicles	**816**	623
Total	**816**	623
Lease Liabilities		
Current	**307**	212
Non-current	**530**	412
Total	**837**	624

Additions to the right-of-use assets during the financial year were £445k (2022: £504k).

Amounts recognised in profit and loss:

The profit and loss account shows the following amounts relating to leases:

Year ended 31 March	2023 £'000	2022 £'000
Depreciation charge of right-of-use assets:		
Vehicles	**252**	149
Interest expense (included in finance cost):		
Vehicles	**28**	34
Total	**280**	183

Other lease information

Year ended 31 March	2023 £'000	2022 £'000
The total cash outflow for leases	**246**	164

14 Inventories

As at 31 March	2023 £'000	2022 £'000
Raw materials and consumables	**377**	286
Total	**377**	286

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the WTW.

15 Trade and other receivables

As at 31 March	Notes	2023 £'000	2022 £'000
Current:			
Gross trade receivables		**31,400**	26,928
Expected credit loss	16	**(9,313)**	(7,855)
Net trade receivables		**22,087**	19,073
Amounts due from group undertakings		**1,235**	658
Other receivables		**2,844**	2,240
Current tax asset		**-**	1,602
Prepayments		**1,560**	1,361
Group relief receivable		**-**	111
Other taxes and social security		**32**	139
		27,758	25,184

Financial Statements – Notes to the Financial Statements continued

16 Expected credit losses on financial assets

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2023 £'000	2022 £'000
At 1 April	**7,855**	8,304
Charge/(credit) for bad and doubtful debts	**1,458**	(449)
At 31 March	**9,313**	7,855

Ageing debt profile and credit loss provisions:

31 March 2023	< 6m £'000	6m-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	2023 £'000
Expected credit loss – Household Metered	13.4%	34.7%	56.1%	71.8%	100.0%	
Outstanding customer debt*	3,307	1,482	1,503	1,154	2,217	**9,663**
Provision at expected credit loss	(441)	(515)	(843)	(828)	(2,217)	**(4,844)**
Specific provisions against contract assets	(124)	–	–	–	–	**(124)**
Loss allowance	(565)	(515)	(843)	(828)	(2,217)	**(4,968)**
Net outstanding customer debt	2,742	967	660	326	-	**4,695**
Expected credit loss – Household Non-Metered	2.3%	2.3%	61.1%	76.2%	100.0%	
Outstanding customer debt*	768	1,644	1,358	797	2,667	**7,234**
Provision at expected credit loss	(18)	(38)	(829)	(607)	(2,667)	**(4,159)**
Specific provisions against contract assets	–	–	–	–	–	**–**
Loss allowance	(18)	(38)	(829)	(607)	(2,667)	**(4,159)**
Net outstanding customer debt	750	1,606	529	190	-	**3,075**
Expected credit loss – Other Receivables	0.2%	-13.2%	19.7%	49.6%	100.0%	
Carrying amount of trade receivable*	1,135	39	183	78	114	**1,549**
Provision at expected credit loss	(2)	5	(36)	(39)	(114)	**(186)**
Loss allowance	(2)	5	(36)	(39)	(114)	**(186)**
Net outstanding customer debt	1,133	44	147	39	–	**1,363**
Total loss allowance	(585)	(548)	(1,708)	(1,474)	(4,998)	**(9,313)**
Net trade receivable	4,625	2,617	1,336	555	-	**9,133**

* Less credits received on account recorded in contract liabilities.

17 Trade and other payables

As at 31 March	2023 £'000	2022 £'000
Trade payables	**4,514**	1,924
Amounts owed to group undertakings	**999**	1,181
Other creditors	**24,757**	24,936
Deposits from developers	**373**	344
Accruals	**11,641**	10,583
Group relief payable	**426**	–
Total Current Liabilities	**42,710**	38,968

18 Borrowings

As at 31 March	2023 £'000	2022 £'000
Current:		
Short term overdraft	**15,000**	–
Short term shareholder loan	**7,000**	–
Total Current Liabilities	**22,000**	–
Non-Current:		
2.874% secured index-linked bond 2027	**38,060**	–
2.874% secured index-linked bond 2028-2031	**159,691**	175,202
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long-term bank loans (revolving credit facility)	**75,000**	59,000
Total Non-Current Liabilities	**272,853**	234,304

Amounts falling due within 5 years	2023 £'000	2022 £'000
Short term overdraft and shareholder loan	**22,000**	-
Bank loans and borrowings (index linked bond)	**38,060**	–
Long-term bank loans (revolving credit facility) : £25m (2022: £9m) SONIA +0.95% due in March 2025 and £50m (2022: £50m) SONIA +0.95% + CAS 0.0252% due in July 2024	**75,000**	59,000
	135,060	59,000

Amounts falling due after more than 5 years	2023 £'000	2022 £'000
Bank loans and borrowings (index linked bond and debentures)	**159,793**	175,304
	159,793	175,304

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI.

The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company. The bond was issued on 21 March 2001 and is secured upon the shares of the Company. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

The bond and debentures are at fixed rates of interest. Borrowings made under the RCFs and the short-term bank loan are at a variable rate with a margin above SONIA and the Bank of England base rate and the short-term bank loan is at a fixed rate above Bank of England base rate. The shareholder's loan is at a fixed rate of 6%.

The £100m bond agreement specified that the issuer shall ensure that sufficient cash is available to meet the indexed RPI linked increases in the bond and therefore during the current year, the Company drew down an additional of £16m under the RCF from the Royal Bank of Scotland, a short-term bank loan of £15m from the National Westminster Bank and a shareholder's loan of £7m from its ultimate parent company, Sumisho Osaka Gas Water UK Limited, to meet its operational needs and the financial covenants (including the Adjusted Interest Cover Ratio requirement) at the year-end date. The short-term bank loan of £15m and the shareholder's loan of £7m are repayable in May 2023.

As at 31 March 2023, the £50m and £25m RCFs, and the £15m short-term bank loan facility were fully drawn down by the Company (2022: £59m).

The RCF of £50m is due for repayment in July 2024.

The short term overdraft of £15m and £3m of the shareholder's loan was repaid in May 2023.

Financial Statements – Notes to the Financial Statements continued

18 Borrowings continued

Loan covenants

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

1. As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date of the 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an interest cover ratio of at least 1.10:1, an Adjusted Interest Cover Ratio of at least 1.0:1.0 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement, the issuer shall submit a Business Plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulated Asset Ratio of less than or equal to 0.80.

The Company has complied with these covenants throughout the current and prior reporting period.

Fair values

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

Determining the fair value of financial liabilities

The fair value of the bond is based on price quotations at the reporting date.

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cash flows. There is no material difference between fair values and carrying amounts within the balance sheet of all other financial assets and liabilities.

The fair values together with their carrying amounts are shown in the balance as follows:

	2023			2022		
	Carrying amount £'000	**Fair value £'000**	**Level 1 £'000**	Carrying amount £'000	Fair value £'000	Level 1 £'000
2.874% secured index-linked bond 2027-2031	**197,751**	**227,661**	**227,661**	175,202	241,379	241,379

19 Deferred tax liabilities

	Deferred tax £'000	**Total £'000**
At 1 April 2022	54,543	**54,543**
Adjustment in respect of prior years	(210)	**(210)**
Deferred tax credit to profit and loss for the period	(6,297)	**(6,297)**
Credit to the statement of other comprehensive income	(4,312)	**(4,312)**
At 31 March 2023	43,724	**43,724**

Deferred tax

As at 31 March	**2023 £'000**	2022 £'000
Current deferred tax assets	**-**	–
Current deferred tax liabilities	**-**	–
Carrying amount at year end	**-**	–
Non-current deferred tax assets	**-**	–
Non-current deferred tax liabilities	**43,724**	54,543
Carrying amount at year end	**43,724**	54,543
Total carrying amount at year end	**43,724**	54,543

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other/ Tax losses £'000	**Total £'000**
At 1 April 2021	37,902	3,699	(40)	**41,561**
Charged/(credited) to the profit and loss	10,501	1,640	(142)	**11,999**
Charged directly to other comprehensive income	–	983	–	**983**
At 31 March 2022	48,403	6,322	(182)	**54,543**
(Credited)/Charged to the profit and loss	(3,115)	91	(3,483)	**(6,507)**
Credited directly to other comprehensive income	–	(4,312)	–	**(4,312)**
At 31 March 2023	45,288	2,101	(3,665)	**43,724**

20 Post-employment benefits

The Company participates in both a defined contribution scheme, 'Group Personal Pension Plan' (GPPP), which is available for all employees, and a defined benefit scheme, 'the Water Companies Pension Scheme' (WCPS), for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 Defined Benefit scheme

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the scheme. Scheme assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the scheme including investment decisions and contribution schedules lies jointly with the Company and the board of trustees of the fund.

The Company's own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset volatility

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if scheme assets underperform this yield this will create a deficit. The scheme holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g. liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in bond yields

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

(c) Life expectancy

The majority of the scheme's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the scheme's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the scheme against extreme inflation). The majority of the scheme's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation, meaning that an increase in inflation will also increase the deficit.

Financial Statements – Notes to the Financial Statements continued

20 Post-employment benefits continued

Guaranteed Minimum Pension (GMP)

We have continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

Section buy-in

With effect from 31 March 2023, the trustees of the scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities, which should reduce the volatility seen through the liability in the pension scheme.

The impact of the transaction (a loss of £10m – the difference between the premium paid and the value of the corresponding liabilities under IAS 19) has been recognised outside of profit and loss (in other comprehensive income), reflecting that the purchase of the buy-in policy was an investment decision, no liabilities have been settled and there is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term.

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2022 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actual advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

As at 31 March	2023	2022
Retail price inflation	**3.60%**	4.00%
Consumer price inflation	**3.10%**	3.50%
Discount rate	**2.70%**	2.70%
Life expectancy of male aged 60 in 2023/2022	**26.4**	26.4
Life expectancy of a male aged 60 in 2047	**28.3**	28.3
Weighted average duration	**12.0**	14.0

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Carrying amount £'000
At 1 April 2022	117,797	(91,532)	26,265
Interest on benefit obligations	–	(2,415)	(2,415)
Actuarial gains/(losses) due to:			
– changes in financial assumptions	–	24,352	24,352
– changes in demographic assumptions	–	244	244
– experience adjustments on obligation	–	(4,418)	(4,418)
Benefits paid	(4,519)	4,519	–
Interest on section assets	3,124	–	3,124
Actual return on scheme assets less interest	(37,576)	–	(37,576)
Expenses	(365)	–	(365)
At 31 March 2023	78,461	(69,250)	**9,211**

The main reasons for the decrease in the balance sheet asset over the year were:

- a reduction in the value of the Section's invested assets;
- the purchase of a buy-in insurance policy with JUST (which reduced the value of assets under IAS 19 as the value of the buy-in policy under IAS 19 is less than the premium paid); and
- higher inflation than assumed at the start of the year (which increased the value of the Section's obligation);

although the reduction in balance sheet asset was partially offset by an increase in the real discount rate (which reduced the Section's obligations).

Following the purchase of the buy-in policy, the balance sheet asset is expected to be relatively stable going forwards.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

As at 31 March	2023 £'000	2022 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	**700**	1,100
Change in inflation rate (-0.1%)	**(700)**	(1,100)
Change in discount rate (+0.1%)	**(800)**	(1,300)
Change in discount rate (-0.1%)	**800**	1,400
Change in life expectancy (+1 year)	**3,000**	4,600
Change in life expectancy (-1 year)	**(3,000)**	(4,600)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared with the previous year.

Total credit/(expense) recognised in the profit and loss

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Employer's part of current service cost						
Section expenses	(365)	–	**(365)**	(244)	–	**(244)**
Past service cost	–	–	**-**	–	–	**-**
Net interest credit/(charge)	709	(26)	**683**	384	(19)	**365**
Net credit/(expense) recognised in profit and loss account for pensions schemes	344	(26)	**318**	140	(19)	**121**

Total (loss)/gains recognised in the other comprehensive income

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Net actuarial (losses)/gains in the year due to						
Changes in financial assumptions	24,352	222	**24,574**	5,356	33	**5,389**
Changes in demographic assumptions	244	1	**245**	665	9	**674**
Experience adjustments on benefit obligations	(4,418)	(73)	**(4,491)**	(1,207)	(33)	**(1,240)**
Actual (loss)/gain on Section assets relative to interest on Section assets	(37,576)	–	**(37,576)**	835	–	**835**
(Loss)/gain to recognise outside profit and loss in other comprehensive income	(17,398)	150	**(17,248)**	5,649	9	**5,658**

Changes in net assets recognised in the balance sheet

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Balance sheet asset/(liability) at 1 April 2022	26,265	(972)	**25,293**	20,476	(1,006)	**19,470**
Credit/(charge) recognised in profit and loss	344	(26)	**318**	140	(19)	**121**
(Loss)/gain recognised in other comprehensive income	(17,398)	150	**(17,248)**	5,649	9	**5,658**
Company contributions paid	–	46	**46**	–	44	**44**
Balance sheet asset/(liability) at 31 March 2023	9,211	(802)	**8,409**	26,265	(972)	**25,293**

Financial Statements – Notes to the Financial Statements continued

20 Post-employment benefits continued

Fair value of scheme assets

As at 31 March	2023 £'000	2022 £'000
Liability driven investments	-	28,220
Liquidity funds	**8,538**	14,208
Buy-in policy	**68,674**	–
BMO Global Absolute Return Bond Fund	-	24,317
Buy and maintain credit	-	50,450
Net current assets	**597**	–
Cash	**652**	602
Total	**78,461**	117,797

20.2 Defined contribution scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

As at 31 March	2023 £'000	2022 £'000
Current year contributions*	**2,006**	1,905

* Charge in the profit and loss account per note 6 is £2,006k (2022: £1,905).

21 Called up share capital

Ordinary shares of 10 pence each.

Allotted and fully paid

As at 31 March	2023 £'000	2022 £'000
514,894,370 (2022: 514,894,370) ordinary shares of £0.10 each	**51,489**	51,489

All shares rank pari passu in all respects.

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

22 Dividends

Dividends paid to immediate parent company

	2023 £'000	2022 £'000
Ordinary dividend paid in June 21 – Appointed	-	1,442
Ordinary dividend paid in November 21 – Appointed	-	1,474
Ordinary divided paid in May 22 – Appointed	**1,640**	-
Ordinary dividend paid in Dec 22 – Appointed	**1,460**	-
Total appointed dividends paid	**3,100**	2,916

Dividends can be classified as follows:

As at year ended 31 March	2023 £'000	2022 £'000
Interim dividend for FY 22 – Appointed	-	1,442
Final dividend for FY 22 – Appointed	-	1,474
Final dividend for FY 22 – Appointed	**1,640**	–
Interim dividend for FY 23 – Appointed	**1,460**	–
Total appointed dividends paid	**3,100**	2,916

In addition £5.0m of non appointed dividends (2022: £0.6m) have been paid from the non appointed business.

Non appointed dividends are not governed by the appointed dividend policy 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 via SESW Holding Company 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 been 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.

23 Commitments

The Company has the following capital commitments for contracts for future capital expenditure not provided in the financial statements:

Year ended 31 March	2023 £'000	2022 £'000
Contracted capital commitments	**3,000**	10,400

24 Transactions with related parties

The Company had the following transactions with related parties:

As at year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2023 £'00	2022 £'000
Advanced Minerals Ltd	80% owned group company	Income	Sale of water treatment by-products and management charges	**15**	33
Advanced Minerals Ltd	80% owned group company	(Expenditure)	Costs incurred for disposal of certain by products	**(20)**	(29)
Total				**(5)**	4

The Company had the following balances with related parties:

As at year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2023 £'000	2022 £'000
Advanced Minerals Ltd	80% owned group company	Asset	Receivables for sales and management recharges	**4**	–
Advanced Minerals Ltd	80% owned group company	(Liability)	Purchase ledger position from trade	**-**	–
Total				**4**	–

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated. Details of transactions with all group companies can be found in the notes to the regulatory accounts in the Annual Performance Report.

25 Cash and cash equivalents

Within liquid resources there is £8.7m (2022: £8.2m) of restricted cash relating to the secured index-linked bond. The prior year restricted cash balance has been restated to increase the balance by £2.3m in respect of restricted interest payment account. £15m (2022: £0.0m) was drawn down on a short-term overdraft and £7.0m (2022: £0.0m) in the form of a shareholder loan to demonstrate suitable liquid assets at the calculation point of the adjusted interest cover ratios. The cash from the overdraft or shareholder loan was not required for liquidity purposes and sat as a cash balance at the year end.

26 Events after the reporting period

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

27 Controlling parties

The Company is a wholly owned subsidiary of SESW Holding Company Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent company and the largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Limited and the consolidated financial statements are available at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ. The intermediate parent company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited are available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

Glossary

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

AMP cycle – the Asset Management Plan cycle, a 5-year cycle used by Ofwat to set price increases and assess performance.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

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SES Water is a trading name of
Sutton and East Surrey Water Plc

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in England number 2447875