



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.

Contents

Strategic Report

Highlights	2
Performance at a glance	3
Our business at a glance	4
Business overview	6
Chair's statement	8
Chief Executive Officer's statement	10
Our markets and emerging drivers	14
Business model	18
Our purpose and strategy in action	20
Our pledges	22
Performance review	34
Working in the public interest	40
Our stakeholders	42
Section 172 statement	46
Sustainability	48
Environmental Scrutiny Panel	52
Customer Scrutiny Panel	54
Financial review	56
Resilience and risk management	61
Principal and emerging risks	62
TCFD	68
Materiality Assessment	70

Governance

UK Corporate Governance Code Index table	72
Board of Directors	74
Corporate governance (including going concern and long term viability statement)	76
Report from the Nomination Committee	87
Report from the Audit Committee	90
Report from the Remuneration Committee	95
Directors' report	110
Statement of directors' responsibilities	115

Financial Statements

Independent auditor's report	116
Financial Statements	123
Notes to the Financial Statements	127

Group information

Glossary	152
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3

Performance
at a glance

18

Business model



54

Customer
Scrutiny Panel

10

Chief Executive
Officer's statement



48

Sustainability

74

Board of
Directors

Highlights

2



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

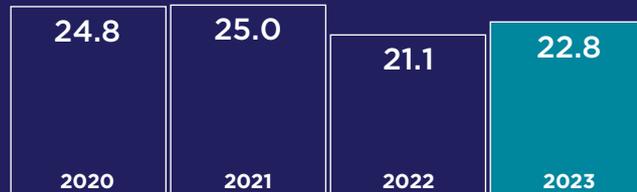
Target met:  Target not met: 

Operational performance

Leakage

megalitres/day

 **22.8**



Customers on our Water Support Scheme

(a 50% bill reduction)

 **19,476**



Greenhouse gas emissions

kgCO₂e/megalitre

 **41**



C-MeX score (industry measure of customer satisfaction)

 **76.03**



Supply interruptions Hours/minutes/seconds/property/year

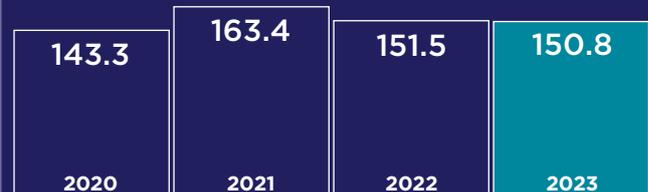
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Consumption

Litres per person per day

 **150.8**



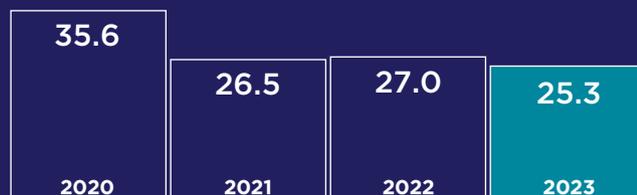
Since the measurement method has changed from 2021, there are no comparable figures for prior years.

Financial performance

Capital investment

£m

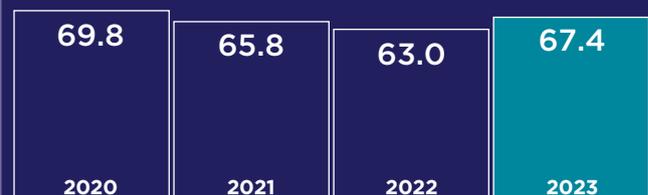
25.3



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

4

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.

160_m
Litres of water
supplied daily



Our purpose:

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

→ [Read more on page 20](#)

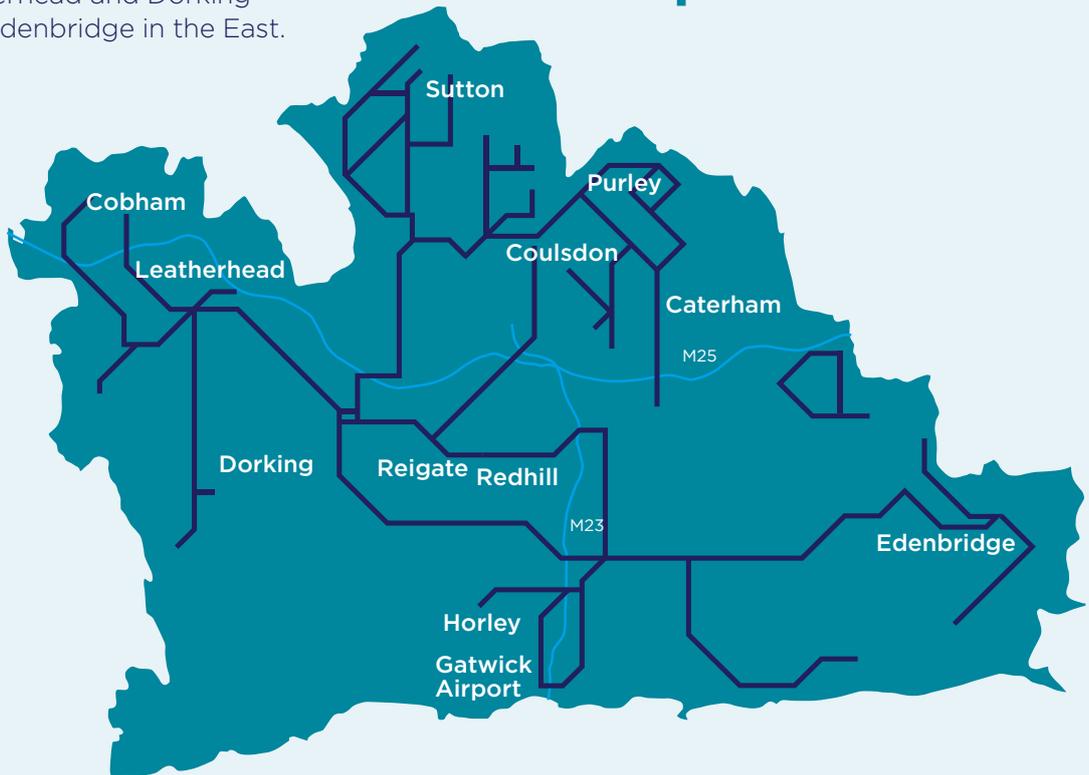
19,476
Number of customers
on our Water Support
Scheme

750_k
People our water
is supplied to

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.

6



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

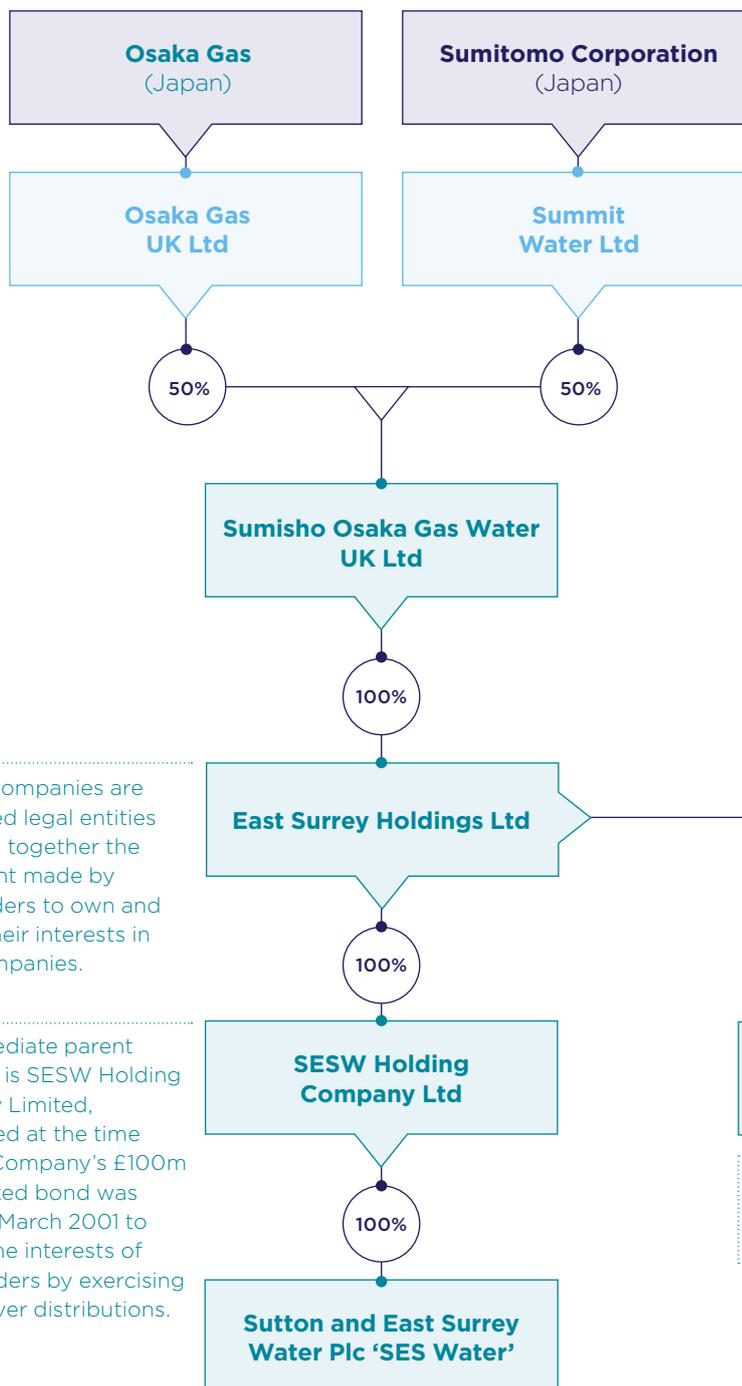
Except where indicated with (Japan) in the diagram below, all companies within the structure are subject to UK corporation tax. This has been the case since 2013 and we have not operated any complex off-shore financing arrangements at any time during this period.

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.



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.

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.



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.



8

“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

10



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.

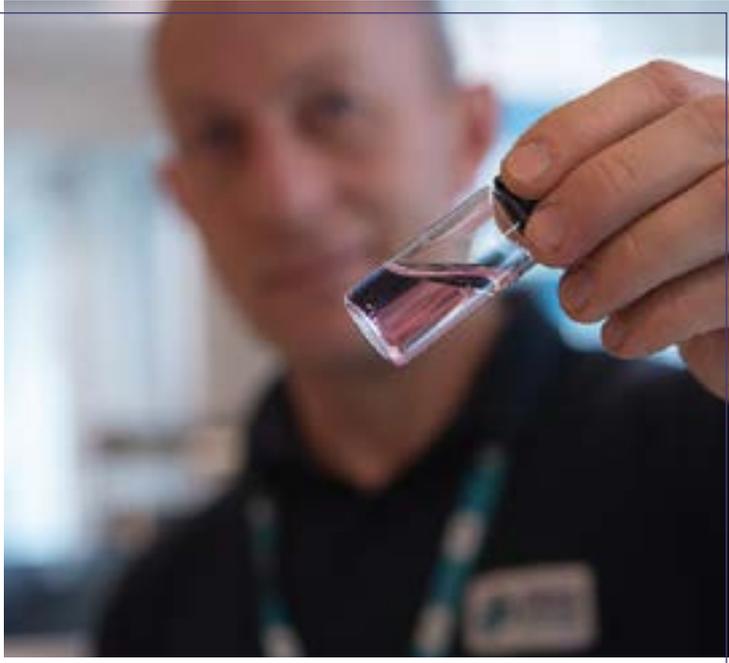
In addition, we have continued to listen to our customers. Their feedback comes from both our day-to-day interactions with them, as well as undertaking more detailed research to help us understand their expectations. We've set up new forums to get a better understanding of the needs of both our vulnerable 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.



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**

Ian Cain
Chief Executive Officer
14 July 2023

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

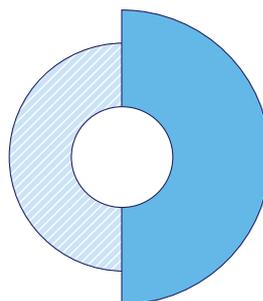
- Ofwat announced its plans for the next phase of its Innovation Fund. This includes a new 'open access' competition which is making £4m available to innovators from any sector - from financial technology firms, to manufacturers, community groups or local government - allowing them to bid for up to £500,000 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.



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



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



We'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.

18

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

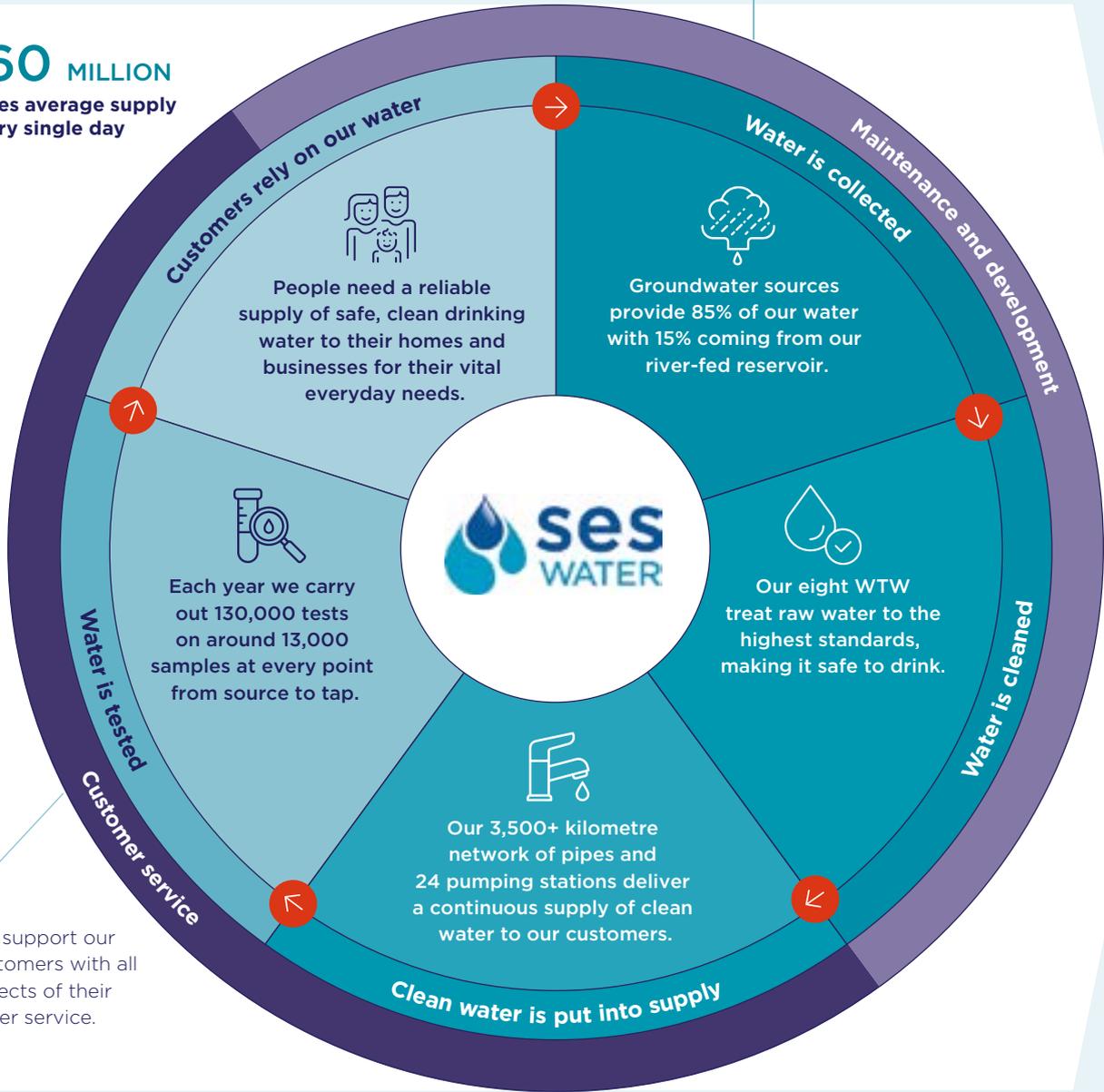
Triple the rate of sector-wide leakage reduction by 2030.

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



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:

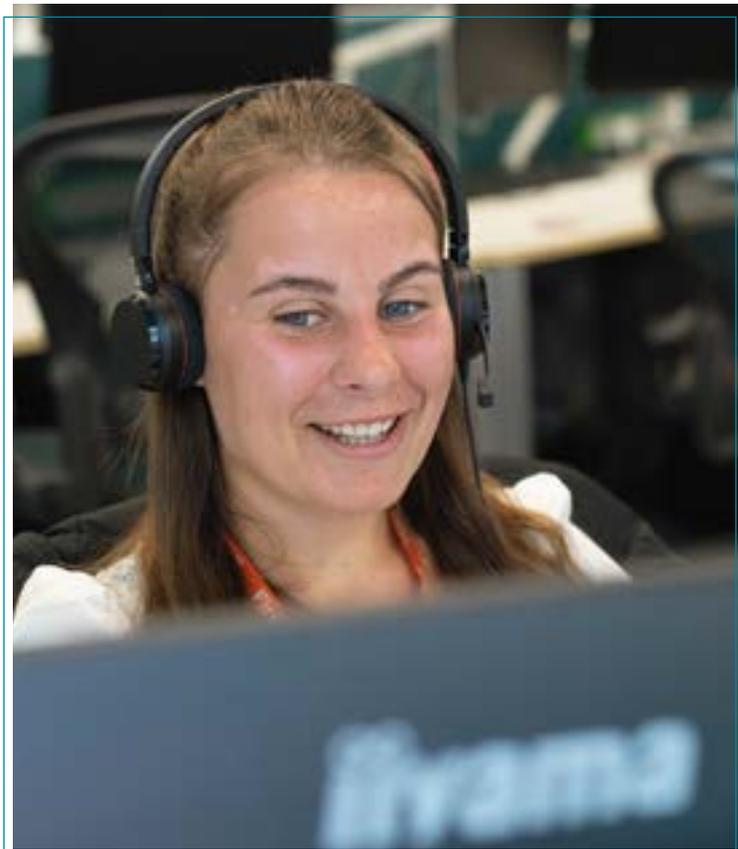
- Provide our customers with high-quality water from sustainable sources.
- Help customers reduce their water footprint and charge a fair, affordable price for what they use.
- Deliver a resilient water supply from source to tap and minimise wastage.
- Improve the environment and have a positive impact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





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.



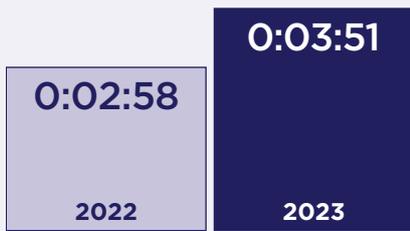
Supply interruptions hours:minutes:seconds/property/year 

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.



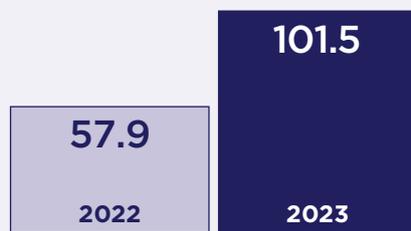
Mains repairs number/1,000 kilometres 

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.



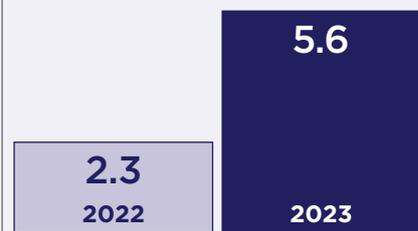
Water softening number of periods exceeding hardness target (mg/l) 

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.



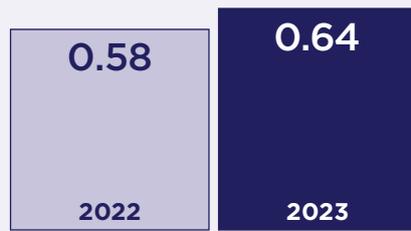
Taste, odour and discolouration contacts number per 1,000 customers 

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



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

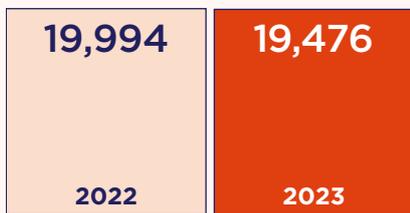
Supporting customers in financial hardship number

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.



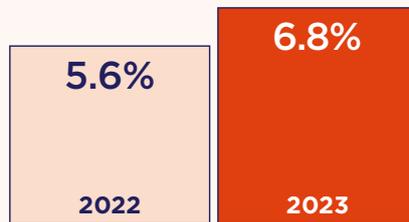
Customers on our Priority Services Register %

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.



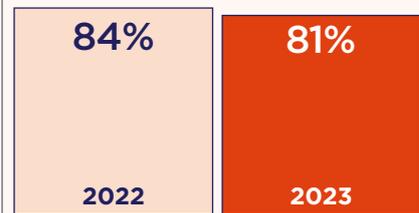
Vulnerable support scheme helpfulness %

Why do we measure this?

It is important we are tailoring our support in the right way to help those who need it.

Performance

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



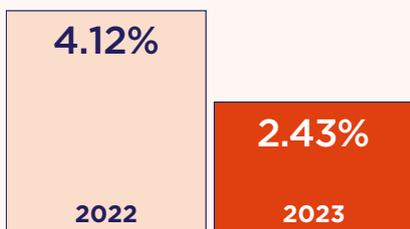
Void properties %

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.



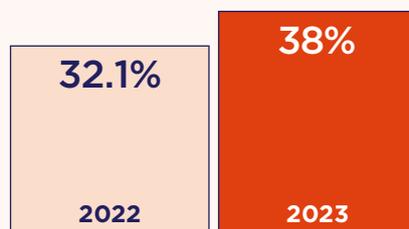
Vulnerable support scheme awareness %

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.



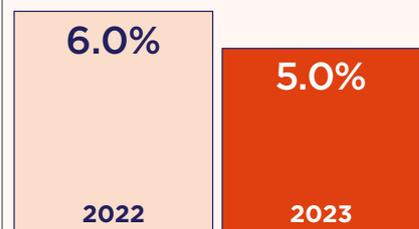
Proportion of customers who believe their bill is not good value % dissatisfied

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.



28

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

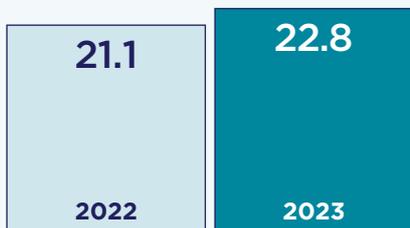
ML/day

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.*



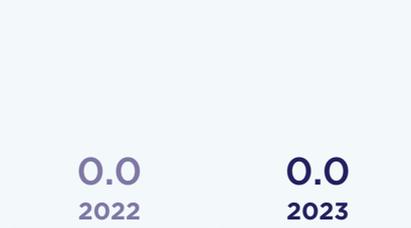
Risk of severe restrictions in a drought % customers

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.



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.



Risk of supply failures

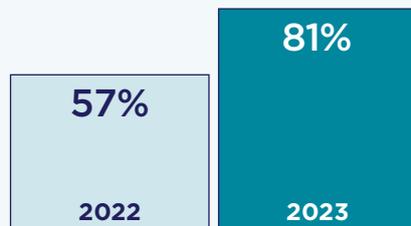
% of properties connected to more than one treatment works

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.



* 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.

30

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

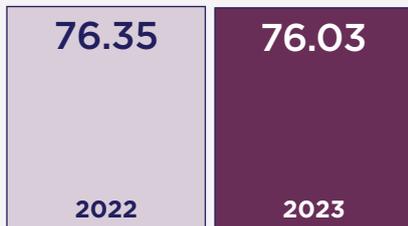
C-MeX (industry measure of customer satisfaction) score

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.



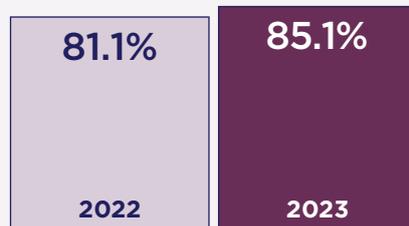
First contact resolution %

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.



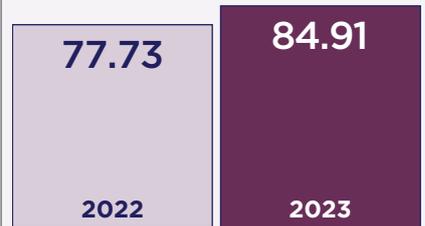
D-MeX (industry measure of developer satisfaction) score

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.



85.1%
Number of customer contacts resolved first time



Our pledges in action



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

32

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 CO₂e 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

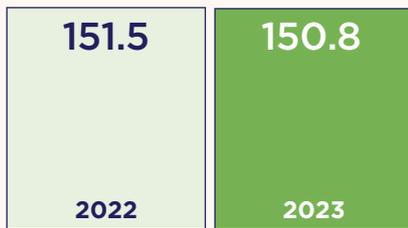
litres consumed per person per day 

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.



Greenhouse gas emissions

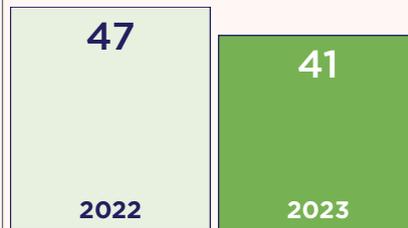
kgCO₂e/megalitre 

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.



Abstraction Incentive Mechanism

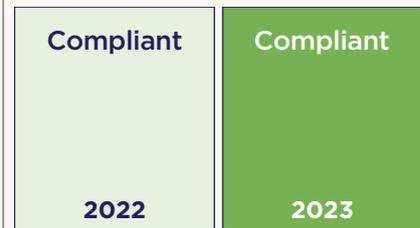
average megalitres reduction 

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.



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

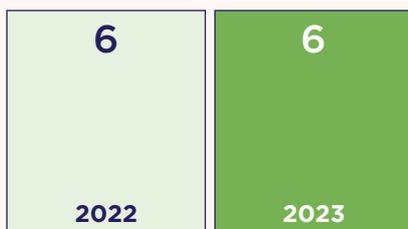
number of schemes 

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.



Pollution incidents

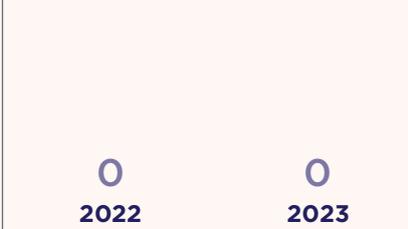
number of category 1 and 2 incidents 

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.



Land-based improvement – biodiversity

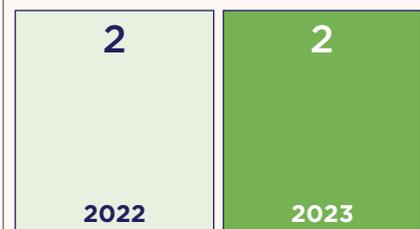
number of sites awarded benchmark 

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.



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 we 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.**

37



“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

38

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 CO₂e 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

42

What they expect	How we talk and listen to each other	How we work for the benefit of our customers
<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - Via the targets set out in our Business Plan for 2020-25, reflecting the issues most important to our customers, such as: <ul style="list-style-type: none"> • 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. <div style="text-align: right; background-color: #00838f; color: white; padding: 10px;"> <p>72% of our customers have a water meter</p> </div>



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

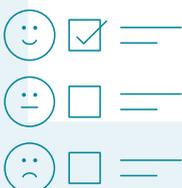
- That we're helping to increase people's trust and confidence in water companies
- That we're keeping the promises we have made in our current Business Plan
- That all our customers can afford our bills
- That we're playing our part in protecting and improving the environment
- That we're making sure 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

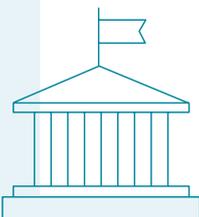
Local community groups

What they expect	How we talk and listen to each other	How we work for the benefit of our local community groups
<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - 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
<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - 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

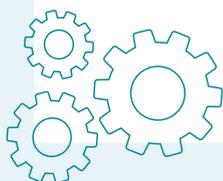
- That we have a procurement process that's open and transparent, and which complies with all the relevant laws and regulations
- That we take our legal obligations, such as around modern slavery, very seriously and ensure we are fully compliant, together with our suppliers
- That our contracts with 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 joint 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.

46

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.

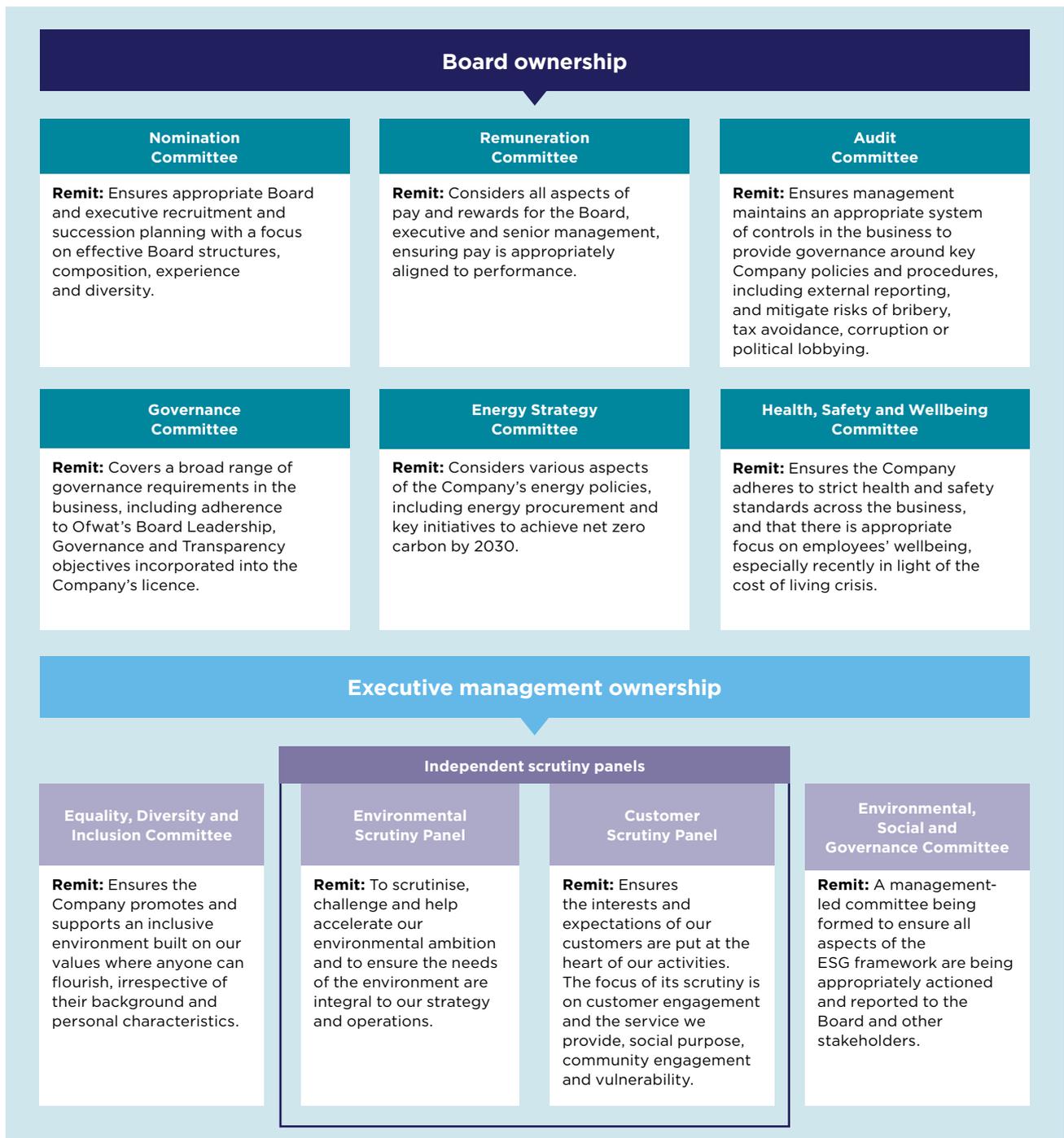
Governance and reporting of our ESG strategy

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.



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

* 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 kgCO₂e/MI, compared with 47 kgCO₂e/MI 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 (tCO₂e) (2021/22: 2,800 tCO₂e), around an 18% decrease on the previous year. This equates to operational emissions of 37 kgCO₂e per million litres of treated water (2021/22: 46 kgCO₂e/MI). Using 2021/22 emissions factors, operational emissions for 2022/23 would be equivalent to 2,800/62,135.68 = 45 kgCO₂e 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 ₂ e)
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 tCO₂e (1,244,341 kWh and 228 tCO₂e)
- Consumption of travel fuels: 1,679,218 kWh and 424 tCO₂e (1,649,168 kWh and 421 tCO₂e)
- Purchase of electricity by the Company for its own use, including for transport: 54,332,386 kWh and 0 tCO₂e (52,506,268 kWh and 0 tCO₂e).

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).

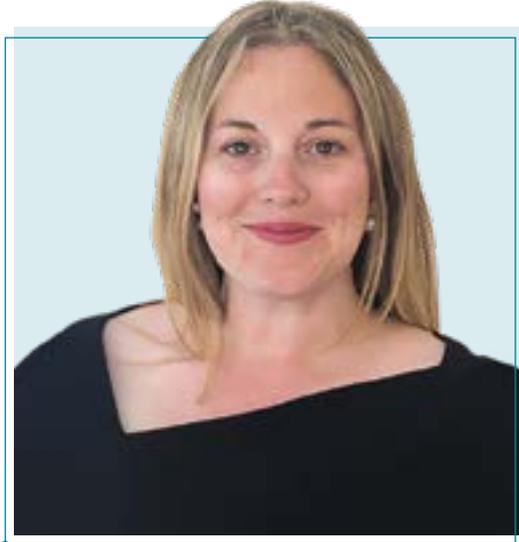
This year there was a reduction in natural gas usage at our treatment works following investment in insulation improvements, which were completed in 2022/23.

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.

Environmental Scrutiny Panel

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

Customer 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.

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.

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

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.

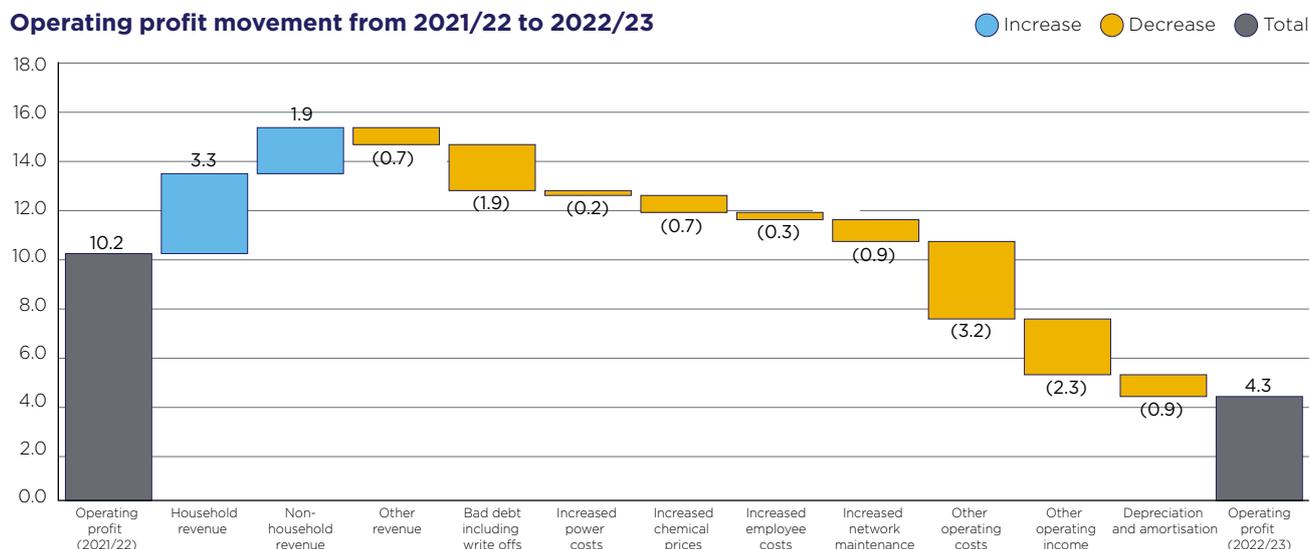
Bad debt

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.

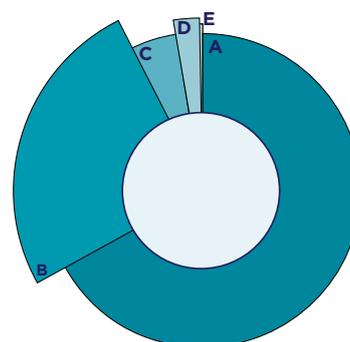
Cash and net debt

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.

Risks

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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Specific environmental performance commitments in our Business Plan - Environmental Scrutiny Panel - Dedicated Energy Strategy Committee - Board leadership through an ESG Committee 	

Risk score

Impact	High			
	Medium			
	Low			
		Unlikely	Possible	Likely
		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	<ul style="list-style-type: none"> - 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 	
Failure to recruit, retain and develop high-quality staff		Degradation of service to customers and business success	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Framework contracts - Managing demand through operational adjustments and forward planning - Industry intelligence - Event management 	
Water supply shortage due to drought		Customer demand not met	<ul style="list-style-type: none"> - 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 	

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

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).

Pledge

Risk score (post mitigation)



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 addition 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.

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 in 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.

Pledge

Risk score (post mitigation)



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	High			
	Medium			
	Low			
		Unlikely	Possible	Likely
		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.

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.

Pledge

Risk score (post mitigation)



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.

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.

Pledge

Risk score (post mitigation)



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.

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.

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 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.

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.

Pledge

Risk score (post mitigation)



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

What does it mean for us?

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

Pledge

Risk score (post mitigation)



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

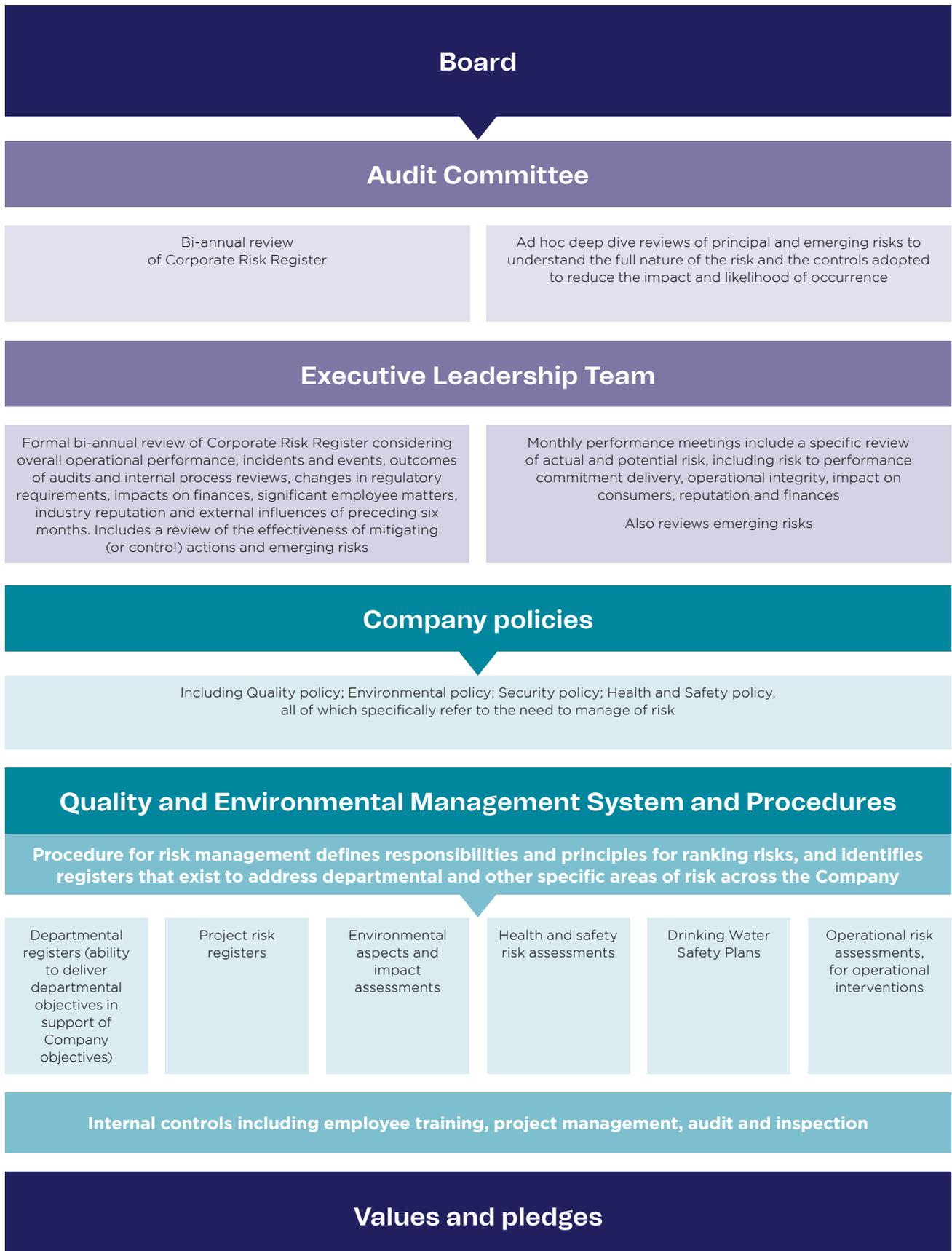
Supply chain deliverability

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

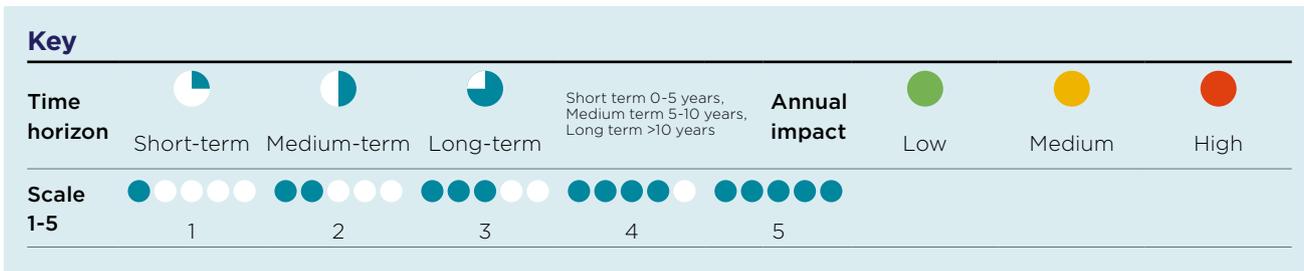


Task Force on Climate-Related Financial Disclosures (TCFD)

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.



68

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	4	4	Low
	Drought impacting water supply	Market	Increased operating costs	Medium-term	4	4	Low
	Climate induced land use change leading to high/peak demand	Market	Increased operating costs	Medium-term	4	4	Low
	High temperature and low precipitation leading to reduced abstraction allowance	Market	Increased operating costs	Medium-term	4	4	Low
	Wildfires and urban fires increasing water demand	Market	Increased operating costs	Medium-term	4	4	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	4	Medium
	Declining natural capital due to high temperatures and low precipitation	Physical	Increased operating costs	Medium-term	4	4	Low
	Algal blooms due to high temperatures	Physical	Increased operating and capital costs	Medium-term	4	4	Low
	Increased Invasive and non-natural species driven by high temperatures	Physical	Increased operating costs	Medium-term	4	4	Low
	Changing climate driving land use change increasing pollution	Physical	Increased operating and capital costs and potential fines	Medium-term	4	4	Medium
	Changing climate increasing wildfires driving increased diffuse pollution	Physical	Increased operating and capital costs and potential fines	Medium-term	4	4	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.

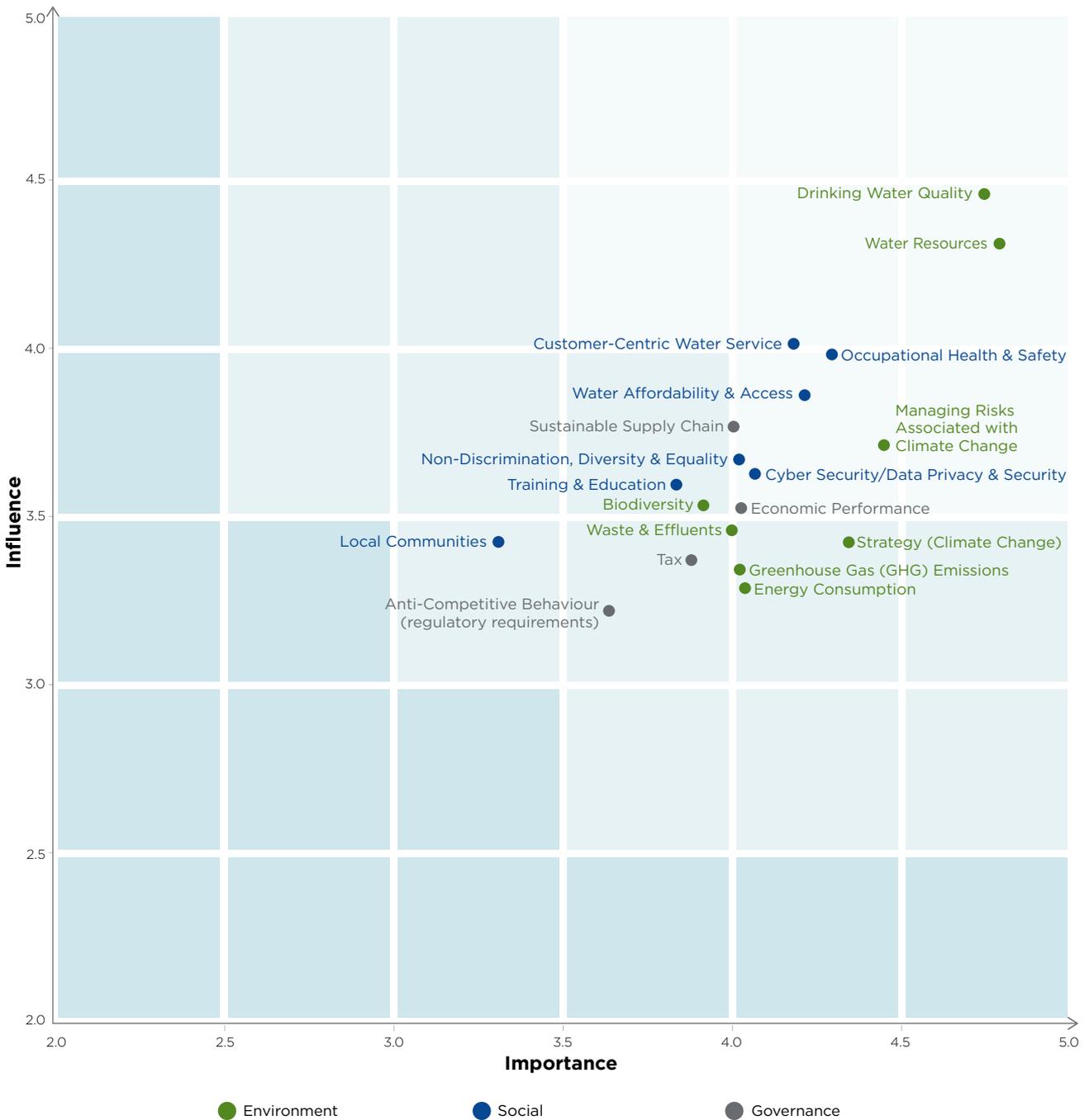
Strong interdependencies were identified amongst social and environmental topics, providing confirmatory evidence that we have the right balance within our current business plan, and helping inform our strategy for the next 25 years and beyond.

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