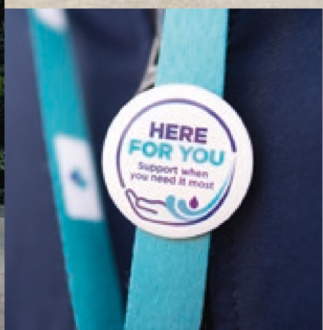
Rising to the challenge

ses WATER

Annual Report and Financial Statements 2021



Thank you

With the support of our customers, our people, our suppliers and our investors we have turned a difficult and challenging time into a year that we're proud of.

As key workers, we have continued treating and distributing millions of litres of water 24/7 to homes, schools, hospitals and businesses – a vital part of fighting COVID-19. Our intent was simple – no one needed to worry about their water supply and we worked tirelessly to make sure this was always the case.

But we don't just play an important part in people's daily lives – we actively work to help improve the communities we are privileged to serve and this has never been more important than ever over the last year.

We...

...were the first local company to give money to the **Surrey Coronavirus Response Fund**

...donated water bottles to **East Surrey Hospital** to keep our wonderful NHS workers hydrated

...constructed hundreds of beds at the new **NHS Headley Court Hospital**

"Thank you so much for your help. I am on kidney dialysis and I can't get out. With a payment holiday I don't need to worry about how I am going to pay my bill now."

Rising to the challenge

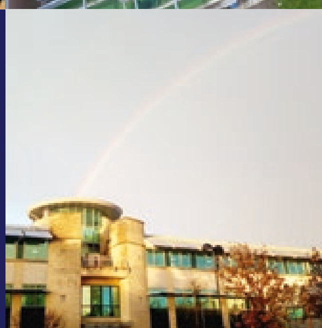
...gave plastic gloves to a **local surgery** that was running low on supplies

...helped **local foodbanks** with groceries and deliveries

...wrote a **new book** for children and gave over **600 copies** to local community groups

...**donated laptops** to a **housing association** which were used by job seekers

"Thank you for the great customer service the residents in our area received yesterday following the burst main, especially for those shielding. We really appreciated the emergency water deliveries and of course thanks to those that carried out the repair."



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.

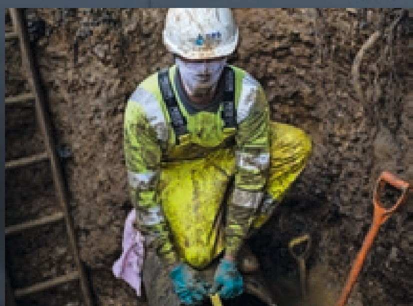
Key stories of the year

Hear from our CEO on his first year

Read more on page 6

How we have performed against our targets

Read more on page 16



Why delivering more than water is important

Read more on page 34

Strategic report

Corporate governance

Financial statements

The back cover provides a glossary of terms used in this document.

For this year's regulated accounts, please read our separate Annual Performance Report 2021.

At a glance

Performance

Leakage target met

24.9
Megalitres/day

Target limit: 24.9

Customers on our Water Support Scheme

20,274

Target: 12,960

Greenhouse gas emissions

40
$kgCO_2e$/Megalitre

Target limit: 55

Burst mains

229

Target limit: 234

Financial

Capital investment

£26.5m

2020: £35.6m

Revenue

£65.8m

2020: £69.8m

Dividend paid

£4.9m

2020: £6.7m

Profit before tax

£3.9m

2020: £10.7m

Highlights

- In response to COVID-19 we have continued to put the health and wellbeing of our employees and customers first, while striving to do the right thing and continue to supply high-quality water all day, every day
- Our continued focus on vulnerable customers means we are now helping more people in more ways than ever before, and have launched our ‘Here For You’ campaign to raise awareness of our financial support schemes and priority services
- We have demonstrated our commitment to supporting many good causes in the areas we serve, including the Surrey Coronavirus Response Fund
- The resilience of our resources and network have coped with increased demand throughout the year, especially during hot spells
- We have achieved The Wildlife Trusts’ Biodiversity Benchmark for enhancing and protecting the biodiversity at our Elmer Water Treatment Works and are the only water company to currently hold the award
- Our customer transformation programme has continued with the development of a new billing and customer relationship management system, due to launch in 2021
- We are working to become the first water company with a fully smart network of pipes and sensors, which help detect leakage in near real-time
- We have opened a brand new education centre at our Bough Beech Treatment Works, so we can continue inspiring future generations for many years to come
- We have welcomed two new members to our executive leadership team – Kate Thornton as Chief Customer Officer and John Gilbert as Chief Information Officer

Chairman's foreword

Jeremy Pelczer
Chairman

The last year has been a challenging time for all of us and life has been far from normal. It has reinforced the critical role we play in society and the commitment we have to the communities we serve, while also highlighting some important challenges that we need to address, both as a company and an industry.

Our employees have adapted to these difficult times, rising to the challenge and continuing to provide an essential service.

Our priority throughout the pandemic has been to keep treating and distributing millions of litres of high-quality water every single day, whilst also focusing on the health and safety of our customers and employees. Our employees have adapted to these difficult times and new working arrangements, rising to the challenge and continuing to provide an essential service. However, their response has gone far beyond delivering the basics. There has been a huge effort to find the people who need extra support. We are helping more than 20,000 households to pay their water bill and have given over 10,000 customers a break from making payments to help them through these difficult times. We've also been contributing to local efforts to tackle COVID-19, working within our communities, to help wherever we can.

Water use has changed significantly in the last year. Despite many businesses being closed, we have been distributing on average around 16 million extra litres every day with more people at home and in their gardens. This shift is unsurprising but has significant implications, particularly if more home working continues beyond the pandemic. We, like all water companies, have committed to challenging targets to reduce household water use so that more water is left in the environment and thereby allow our rivers to be healthy and where wildlife can thrive. What we are seeing is very different to what we initially projected and makes meeting our target much more challenging.

Collective action is needed by the industry, Government and regulators to address this and ensure that we continue to drive for more efficient use of water over the long term while agreeing how we manage the impact it has on our five-year 2020 to 2025 Business Plan agreed with our regulator.

Minimising the water lost from our network and our customers' pipes clearly reduces our impact on the environment, too, so I am pleased that we have again stayed at or below the maximum allowed level of leakage, as set by our regulator. Not only that, but our investment in innovative technology and improved data gathering, including working with several specialist partners, means we are now better placed to sustainably reduce leakage for the long term.

Another key investment this year has been in a new billing system, Aptumo, which will be brand new to the UK water industry. It is a key enabler to improving the service we offer to our customers. The Board is looking forward to seeing the benefits reflected in our performance and we remain committed to ensuring our customers are at the heart of the investment decisions we make.

As a Board we acted decisively in the early stages of the pandemic to increase our financial resilience by extending our credit facilities so that we can manage further financial shocks, should they occur. We consider this a sensible move in order to manage financial pressures in the future. We also need to better understand the longer-term financial effects on our customers as the country works to recover and rebuild the economy.

While 85% of our water comes from underground sources, 15% comes from Bough Beech Reservoir in Edenbridge, Kent.

Despite the pandemic we have progressed our work to enhance our Board leadership and governance agenda. We are continuing to develop our enhanced social purpose so that it represents all aspects of what we do and is relevant to where we operate and the people we serve. Everything we do must contribute to delivering this social purpose and be measurable and owned by the Board. CEO Ian Cain and his executive leadership team are making a great contribution to this important work and I welcome their expertise, ideas and commitment. We are building on our firm foundations as a community-focused local company and reinforcing our long-standing commitment to deliver public value.

Linked to this is our ambition to enhance the way in which we report our environmental, social and governance (ESG) performance. At a personal level, ensuring the ESG agenda is embedded in the business ready for the Company to build upon and put at the heart of its future plans is a priority for me in the coming year.

We are taking important steps to put this agenda at the heart of our decision-making, supported by our Environmental and Customer Scrutiny Panels, who are providing constructive challenge and a wealth of knowledge and expertise. I am delighted to welcome Steve Crabb as the new Chair of our Customer Scrutiny Panel and look forward to working with him and the rest of the panel as we continue to drive forward our plans to improve the experience we provide to our customers, an area which has seen real progress over the last year. I would like to place on record my thanks to the previous Customer Scrutiny Panel Chair, Graham Hanson, for all his constructive and professional challenge to the Company as we continue to enhance our customer engagement.

I am pleased a succession plan has been implemented for a new Chair of the Company, given that my third and final term will end in March 2022. The Board has determined Dave Shemmans, one of our current non-executive directors, will be the new Chair of the Company with effect from 1 April 2022. I am delighted Dave's significant knowledge and experience of the Company and sector will continue to benefit the Board, our employees and customers. He will be an outstanding Chair.

There is no doubt that the last price review exposed conflicting views associated with how the water industry is run and financed and there is a great deal to reflect upon following the Competition and Markets Authority's ruling on the four companies that appealed their Final Determinations. Both companies and regulators must consider this so that the next price review strikes the right balance between risk and reward, and between affordable bills and the required investments to ensure a resilient infrastructure.

My objective for the coming year, as we recover from the pandemic, is that we maintain the best of what has helped us deliver our essential service through this difficult period, re-double our focus on those areas which have been most impacted and do more, where we can, to make the greatest contribution to society. We have a great deal to be proud of as a company and as ever my sincere thanks go to all our staff and supply chain partners who have been committed to ensuring that, with many worries for our customers over the last year, their water supply has not been one of them.

Jeremy Pelczer
Chairman

2 July 2021

Chief Executive Officer's statement

Ian joined SES Water in February 2020 and we hear about his first year in the job, the response to the pandemic and his priorities for the future.

Ian Cain
Chief Executive Officer

Q&A with Ian Cain

I have listened to calls with customers myself and you can hear the relief and gratitude when we are able to take one of their many worries away.

Looking back over your first 12 months as CEO, what have been the Company's biggest achievements during a particularly challenging year?

The last year has been like no other. For me it has highlighted the unwavering commitment that all our staff have to our customers. SES Water has a long history and deep roots in the community, and our response to the pandemic has made them even stronger. We've played an active part in the local response through donations to the Surrey Coronavirus Response Fund, helping to set up the new NHS Headley Court Hospital and through our work with local foodbanks and other worthy causes. This is in addition to the extra support we have put in place for our customers and employees during this difficult period.

At the same time, we've made good progress against some very challenging targets set in our Business Plan. We have stayed at or below the maximum allowed level of leakage and we continue to have one of the lowest leakage levels in the country. The number of burst water mains is also within our target, meaning we are providing a more resilient supply for our customers. We are benefitting from our investment in intelligent networks which is helping us to take a more accurate data-led approach to finding and fixing leaks rather than using more traditional methods. This is industry leading work and will deliver real benefits to customers and transform how we operate and invest in our network, so it is more efficient and reliable.

We've also made some real improvements to our customer service which can be seen through the increase in our C-MeX score, which is one of the ways in which water companies' service is measured across the industry. Again, we've taken a data-led approach to understand the root cause of problems and are collaborating across the business to solve them – with everyone across SES Water determined to keep improving and committed to delivering great service.

What has the Company done to support its customers and employees through the pandemic?

We acted very quickly to make sure our people were physically safe by stopping all non-essential activity and travel and enabling people to work from home. Over time we've moderated our approach as we've learned more and provided equipment so people can work safely while abiding by the Government's guidelines. The longer-term issue is the impact on people's wellbeing. Lack of contact and interaction with colleagues can be isolating and we have been making sure people feel connected and are supported. We've increased the number of Mental Health First Aiders who run virtual coffee and chat sessions as well as one-to-one support and we have also provided our employees with free access to the Headspace app, a mindfulness tool, which has been really popular.

We know different people will deal with this situation in different ways, but we have a responsibility to all our employees and are enhancing our long-term wellbeing strategy so good mental health is supported alongside good physical health and safety, well beyond the pandemic.

Likewise, we know that our customers have been impacted in many different ways. We're helping more people than ever to pay their water bill and providing payment holidays to more than 10,000 people struggling financially. We've also been proactively reaching out to find those who have other challenges, perhaps linked to their age or health, so we can provide them with extra tailored support as and when they need it – both now and in the future. The response to this has been fantastic with many customers telling us that we have been the only service provider to get in touch personally – I have listened to calls with customers myself and you can hear the relief and gratitude when we are able to take one of their many worries away.

How have you performed against your Business Plan targets in this first year of the period? Are there any that have been particularly impacted by the pandemic and what are you doing to address them?

The first year of our 2020 to 2025 Business Plan was always going to be a challenging one, even without the pandemic. We have worked hard to make progress against our targets, particularly those associated with providing additional support to customers and it's great to see that our customers feel that what we offer is really helping them, particularly during these difficult times.

Our environmental performance is also strong. We have continued to achieve our target for greenhouse gas emissions but, unfortunately, we have missed our target for water supply interruptions, which is unusual, due to a single large water main burst last summer, which impacted customers for more than three hours. Likewise, despite continuing to supply some of the highest-quality water in the country, we have fallen short of our challenging targets for water quality, as well as taste, smell and appearance concerns. This is obviously disappointing but for both areas we know we are still among the top performers in the industry.

The target that has been hardest hit by the pandemic is our commitment to reduce household consumption. We, along with the entire sector, have seen water use at home rise considerably as a result of the lockdowns. This is inevitable and understandable with more people staying at home and children unable to go to school. However, if the shift to home working continues beyond the pandemic – reducing water use by businesses but increasing use at home – it will make achieving our target very difficult over the coming four years. We're working closely with colleagues in the industry and our regulators to understand the impact of this unprecedented situation and what it means in the long term.

We also believe that measuring household consumption in isolation does not provide a representative picture of how efficiently water is being used. The industry has been lobbying strongly to encourage the Government to include a target within the pending Environment Bill that considers wider water use by homes, businesses and what is lost through leakage – so that everyone recognises the part they have to play in protecting this precious resource and can take appropriate action.

Supporting our community – we connected the water supply at NHS Headley Court Hospital Surrey and our 'SES Army' of volunteers helped construct over 200 patient beds to provide much needed extra capacity.

Chief Executive Officer's statement

Continued

There has been lots of focus on the water sector's role in delivering environmental improvements. What part will SES Water play in this?

Protecting and enhancing the environment is a pledge within our Business Plan and a long-term necessity because we are reliant on the chalk aquifer beneath the North Downs and a number of local rivers for the water we supply. We are working with our neighbouring water companies to understand how we can use these chalk sources more sustainably and to identify alternative sources where needed so we have resilient water supplies for the future.

However, our role extends far beyond our obligation to produce clean and plentiful water while minimising environmental impact. There is a huge opportunity to create more public value by looking at how we interact with the environment around us and where our contribution can deliver wider benefits. We've done some great work this year becoming the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark (at our Elmer Treatment Works), demonstrating our commitment to making our sites more attractive to plants and animals and the ability for operational activity to work alongside biodiversity.

As well as continuing with our trial of electric fleet vehicles, we have taken another step forward with our company car scheme which now sees all qualifying employees provided with electric vehicles or plug-in hybrids when they either join the scheme for the first time or when their vehicle is replaced. Employees are also being provided with home-charging facilities and all of our manned treatment works and Redhill head office now have charging points in place.

Stepping up to the challenge – our frontline teams have worked tirelessly to maintain our customers' supply of water, often in demanding environments.

Helping to guide our long-term environmental strategy is our Environmental Scrutiny Panel (ESP) which we formed in April last year and is a group of experienced and passionate environmental champions who want to see us put environmental sustainability at the heart of our decision-making. They are working with us in a unique way – providing insight and guidance alongside independent challenge and scrutiny. Their contribution to date has been extremely valuable and I look forward to working closely with them as our plans progress. You can read more from the Chair Alison Thompson on page 46.

You have recently added new members to your executive leadership team – how will their experience help to achieve the Company's goals?

I have introduced two new senior roles this year – Kate Thornton who joined us as Chief Customer Officer with experience in airlines and health insurance, and John Gilbert who previously worked at National Grid and is our Chief Information Officer. They have improved the strength and breadth of the leadership team, providing more knowledge, experience, leadership capability and strategic awareness.

An essential service – as key workers our role to maintain a reliable supply of the highest-quality water to our customers has never been more important than over the last year.

In the short-term this is enabling us to focus on how we deliver our five-year operational and financial Business Plan in the most efficient and effective way possible and prioritising what we do with the funding we have. They are also key to developing our long-term vision and building a bridge to the next Business Plan and beyond. Our future plans need to be set in a long-term context, so we address the challenges we face and make the most of the opportunities that arise.

The pandemic has sharpened our focus on the need to improve our digital infrastructure. John brings a huge amount of IT experience and capability so that we can simplify our systems and enhance our digital offering so that we deliver a seamless service – making the most of new technology. His immediate focus has also been on improving our approach to data gathering and storage so we can make much more informed business decisions based on real insight. Kate's experience of working in customer-facing, commercial markets where people have choice will help us understand how customers think and feel, and improve how we engage with them, so we deliver a great experience every time. What is critical is that as a senior team we enable the whole organisation to make this happen, so strong leadership and communication are essential.

After a year in the job, what is your assessment of the culture within the Company? Are there any aspects that you think need to change?

SES Water has a strong history and heritage. It has a positive culture and one where people care deeply about providing customers with a great service – our people's response to the pandemic has really shown this at its best. It is also very evident that people take care of each other, which is incredibly important. I want to build on that so that when we talk about a culture focused on customers, we understand what that means and are being more progressive in our approach. Everyone needs to understand their role in supporting and serving each individual customer. Furthermore, we need to demonstrate we are a high-performing organisation and modernise ourselves, so we work smarter and always strive to do better.

What are your key priorities for the year ahead?

Firstly, to make sure that we are clear on how we will deliver our Business Plan commitments for the remaining four years of the period, including those that have been challenged by the pandemic.

In parallel, we will be developing a long-term strategy that is led by our renewed purpose so that it informs our next Business Plan for 2025 and beyond. We need to do things now that will support that plan and delivery of our long-term vision.

We are also going to do more to develop our people and continue to support them through and out of the pandemic while continuing to transform the service we deliver to our customers. We will also continue our intelligence-led approach to managing our assets and work collaboratively within the business and outside to drive innovation that will improve our service.

Finally, we are going to identify where we can deliver wider benefits that our local communities want and value, so we continue to play an active role in improving the lives of the people we are privileged to serve.

Ian Cain
Chief Executive Officer

2 July 2021

Our business at a glance

Understanding SES Water

Our vision
To be an outstanding water company that delivers service excellence.

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

Read more on page 34

What we do
We supply around 160 million litres of clean water every day to more than 735,000 people in parts of Surrey, Kent, West Sussex and South London.

Our business in numbers:

Water coming from underground sources
85%

Water from our reservoir
15%

Number of employees
351

Percentage of our pipe network that is 'smart'
83%

Customers with a water meter
62%

Water treatment works
8

Litres of water supplied daily on average
160m

Our values

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

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

Integrity
We are accountable, ethical and trustworthy.

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

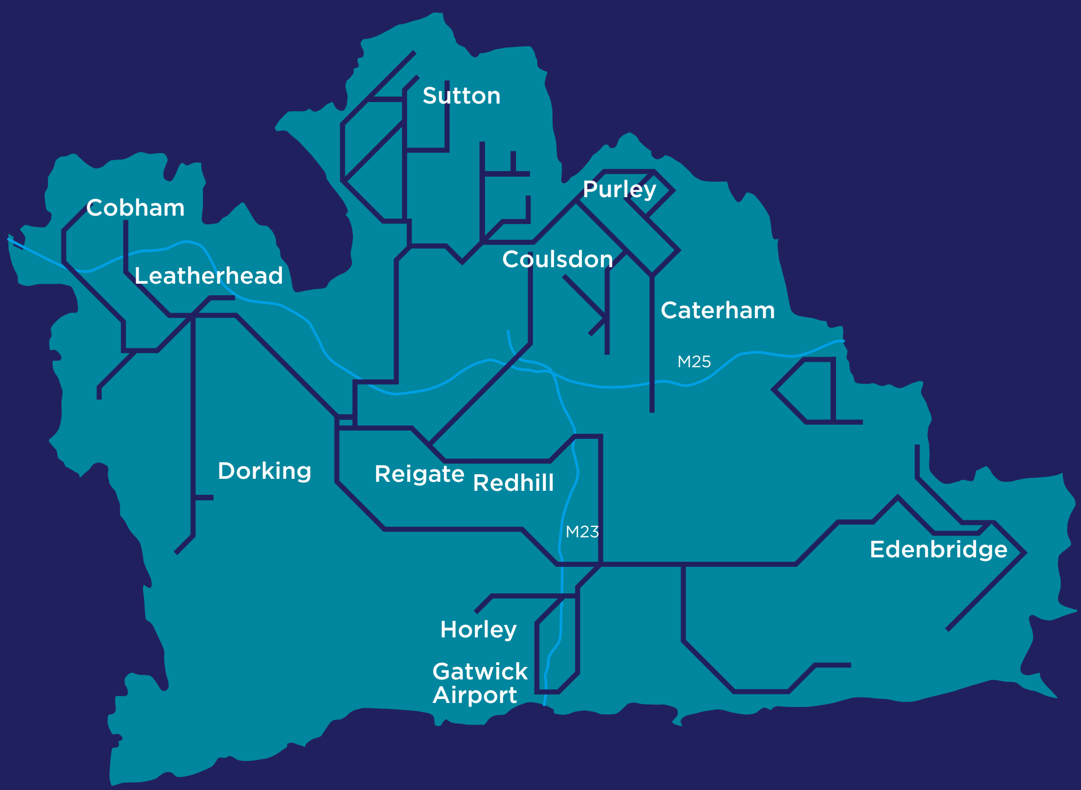
Collaboration
We are respectful, welcome diversity and support each other to achieve our goals.

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

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

Where we operate

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



Our structure

Our structure allows us to focus on our core function of supplying a reliable supply of high-quality water while ensuring that we provide excellent service to our customers, have the key support teams in place and an independent focus on compliance.

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

Wholesale services

Tom Kelly
Wholesale Director

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

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

Quality and compliance

Nicola Houlahan
Quality and Compliance Director

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

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

Finance, regulation and corporate services

Paul Kerr
Chief Financial Officer

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

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

Information Technology

John Gilbert
Chief Information Officer

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

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

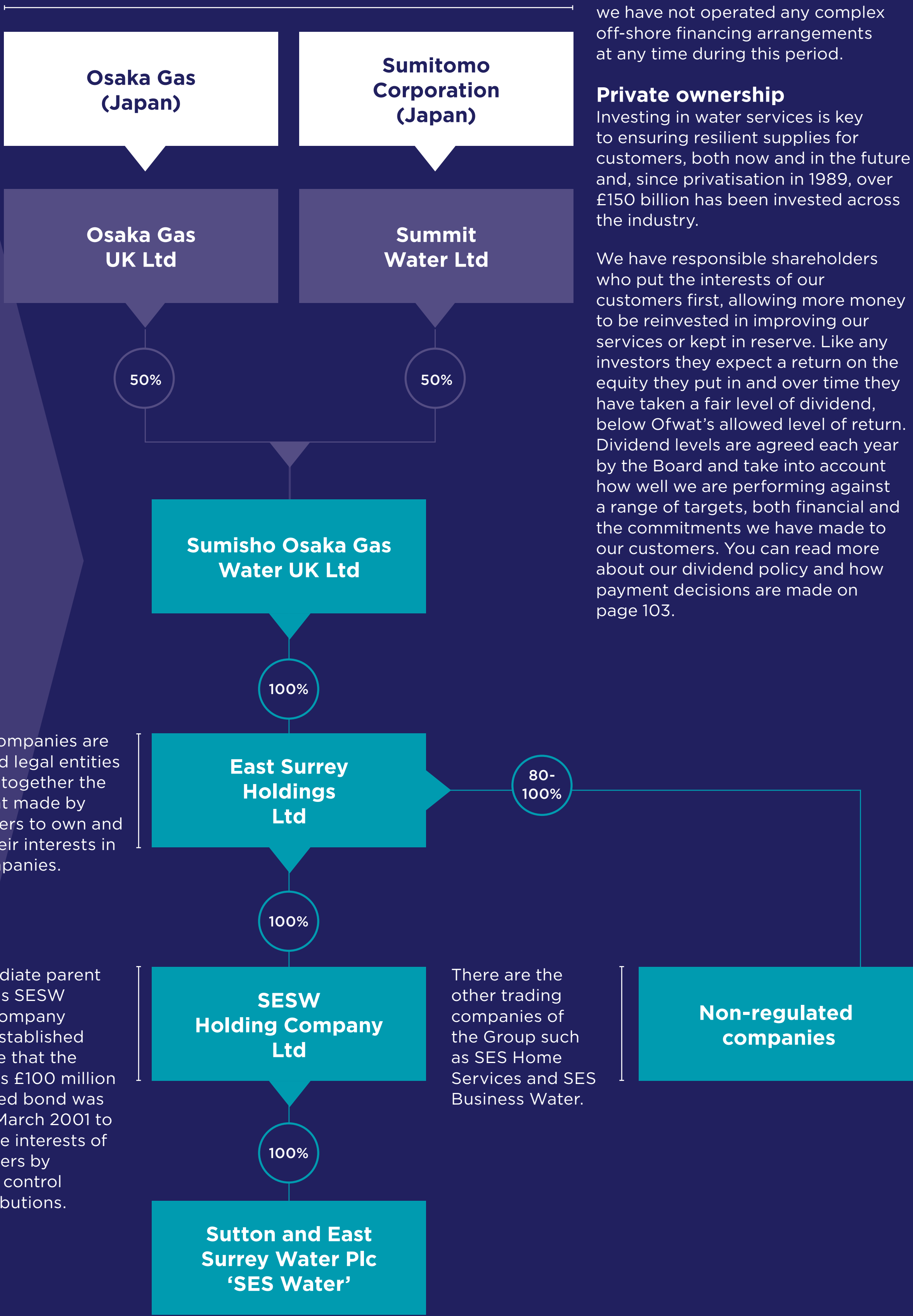
HR and Learning and development

Sarah Brown
Head of People

Responsible for the overall provision of human resources services, policies and procedures

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

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



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

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

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

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

Private ownership

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

We have responsible shareholders who put the interests of our customers first, allowing more money to be reinvested in improving our services or kept in reserve. Like any investors they expect a return on the equity they put in and over time they have taken a fair level of dividend, below 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 financial and the commitments we have made to our customers. You can read more about our dividend policy and how payment decisions are made on page 103.

Business model

Creating long-term value

Our vision

Our vision is to be an outstanding water company that delivers service excellence.

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 Investors In People (IIP) Silver award is a significant achievement which recognises the enduring effort that goes into making SES Water a better place to work.

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

Inputs

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

Employees
Developing and motivating our 351 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.

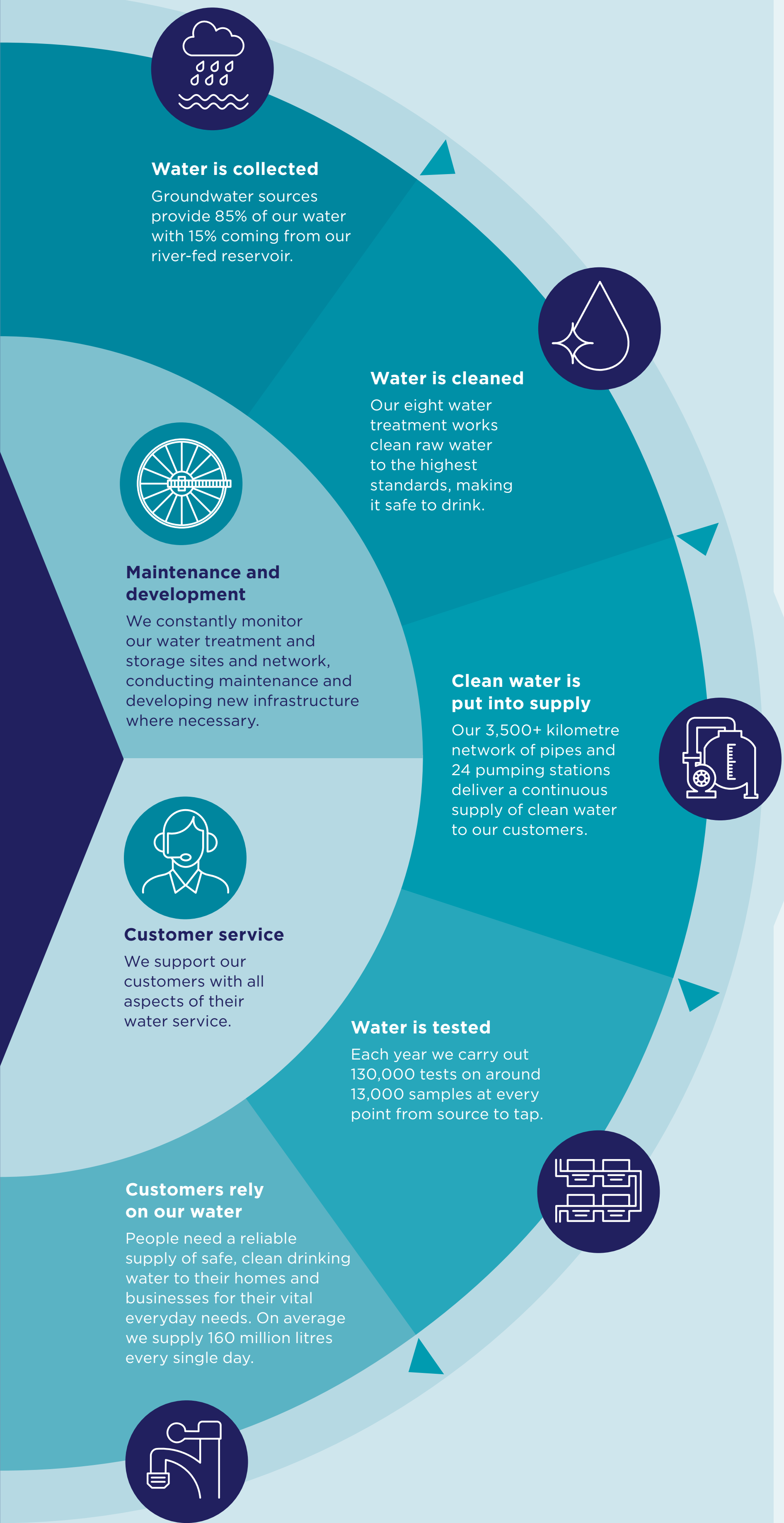
Physical assets
Efficient maintenance of our sites, equipment and networks, significant capital investment to construct new assets and innovation to inform future development.

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

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

Triple the rate of sector-wide leakage reduction by 2030

Achieve net zero carbon emissions for the sector by 2030



Outcomes

The value we share between our stakeholders:

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

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

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

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.

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

Across the country, prevent the equivalent of four billion plastic bottles ending up as waste by 2030

Be the first sector to achieve 100% commitment to the Social Mobility Pledge – a coalition of 550 businesses globally putting social mobility at the heart of their purpose

How we are performing

These are our performance commitments

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

Rating and descriptions

● On target ● Off target

2020 performance = calendar year
2020/21 performance = financial year

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

1 The Compliance Risk Index for SES Water will be published in the Drinking Water Inspectorate's Chief Inspector's Report – Drinking Water 2020 - which is due to be published in July 2021.

PLEDGE 1

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

Measure	Rating	Performance	target/ target limit
Water quality – DWI Compliance Risk Index (CRI) score	Off target	2020 performance: >2[1]	0.00
Supply interruptions hours/minutes/seconds/property/ year	Off target	2020/21 performance: 00:06:56	00:06:30
Mains repairs number/1,000 kilometres	On target	2020/21 performance: 64.7	66.5
Taste, odour and discolouration contacts number per 1000 customers	Off target	2020 performance: 0.56	0.51
Water softening number of periods exceeding calcium target	Off target	2020 performance: 6.3	0.0

PLEDGE 2

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

Measure	Rating	2020/21 performance	target/ target limit
Supporting customers in financial hardship number	On target	20,274	12,960
Void properties %	Off target	4.42	2.80
Customers on our Priority Services Scheme %	On target	4.5	3.5
Vulnerable support scheme awareness %	Off target	36.5	56.7
Vulnerable support scheme helpfulness %	On target	95.0	80.0
Proportion of customers who believe their bill is not good value % dissatisfied	On target	7	9

PLEDGE 3

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

Leakage reduction
%

2020/21 performance	target/ target limit
1.2	1.2

Unplanned outages at treatment works
%

2020/21 performance	target/ target limit
0.95	2.34

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

2020/21 performance	target/ target limit
56	65

Risk of severe restrictions in a drought
% customers

2020/21 performance	target/ target limit
0.0	0.0

PLEDGE 4

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

C-MeX (industry measure of customer satisfaction)
score

2020/21 performance	target/ target limit
78.97	Upper quartile

D-MeX (industry measure of developer satisfaction)
score

2020/21 performance	target/ target limit
60.20	Upper quartile

First contact resolution
%

2020/21 performance	target/ target limit
83.9	80.0

PLEDGE 5

We will support a thriving environment we can all rely upon

Consumption reduction
%

2020/21 performance	target/ target limit
(3.7)	1.0

Greenhouse gas emissions
$kgCO_2e$/megalitre

2020/21 performance	target/ target limit
40	55

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

2020/21 performance	target/ target limit
0	0

Pollution incidents
number of category one and two incidents

2020 performance	target/ target limit
0	0

Abstraction incentive mechanism*
average megalitres reduction

2020/21 performance	target/ target limit
Not triggered	-7

Land-based improvement – biodiversity
number of sites awarded benchmark

2020/21 performance	target/ target limit
1	1

Deliver WINEP requirements
delivered

2020/21 performance	target/ target limit
Met	Met

OUR PLEDGE:

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

Our pledge in action

Nothing is more important to us than striving to keep our customers supplied with safe, clean water, especially during a global pandemic.

Keeping our customers informed while we undertake essential mains replacement work to support the development in Redhill.

Highlights

—

- We met our bursts target again this year which reflects the general good health of our network and the work that goes into maintaining it
- We continue to have upper quartile industry performance for minimising the number of customers contacting us about the taste, smell or appearance of their water
- Despite reduced activity during lockdowns, we have still replaced over eight kilometres of aging water mains in the past year
- We have made significant investment in upgrading the water softening capability at our Elmer Treatment Works
- We have invested in an important mains replacement programme in Redhill, laying more than 1.5 kilometres of new main to support the significant building development in the town
- We successfully prosecuted a company for illegally taking water from our pipe network and we gave the fine and legal costs back to the local community who were impacted with cloudy water as a result

Network Maintenance Operative Matt Earle working hard to repair our network in difficult conditions.

401

401 customers contacted us in 2020 about the appearance, taste or smell of their water – that's just 0.1% of the properties we supply

I've lived in eight boroughs across the capital over the past 20 years and without doubt my supply from SES Water is the best in London.

A customer, posting on our online community

OUR PLEDGE:

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 extended our financial support options when they have needed it the most.

Providing the help and support for our customers whenever they need it.

Highlights

- Our average household bill for 2020/21 equated to around 50 pence a day and over the next four years we are lowering our bills
- We launched our 'Here For You' campaign to raise awareness of our collection of financial support schemes and priority services
- In response to COVID-19 we launched 'Breathing Space', a payment pause scheme for customers facing life changes that have affected their income and who need time to adjust
- More than 12,000 of our customers are registered on our Priority Services Register, which provides extra support to customers who have health, access or communication needs
- Over 90% of our customers think the extra services we offer are helpful

Customer Liaison Officer Janet Riley working from home to support our customers – with a little help from her dog, Ted!

50%

Over 20,000 customers are benefitting from our Water Support Scheme, which provides a 50% bill discount to those that need it most

> The customer service agent I spoke to this morning was very kind and very understanding of my circumstances.

Mrs Padgham from Caterham

OUR PLEDGE:

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.

Civil Engineer Chris Karunanithi has supported the work at Elmer Treatment Works to ensure the site is able to meet the supply needs of a growing population for many years to come.

Highlights

—

- We completed the upgrade of our Elmer Treatment Works – investment that will improve the site's efficiency and maintain the quality of water for our customers now and for many years to come
- We have stayed at or below the maximum allowed level of leakage every year since the target was first set over 20 years ago and have invested in innovative technology to become the first water company with a totally 'smart' network to detect and fix leaks quicker
- No restrictions on water use were necessary in the past year
- We have published a consultation on our Drought Plan, linked to our Water Resources Management Plan, which sets out how we will still supply water to our customers in the driest conditions

Civil Engineer Gary Taylor overseeing the significant investment made in upgrading our Elmer Treatment Works.

56%

Over half our customers can be supplied by more than one treatment works if needed which means we're providing a more resilient service to them. We plan to ensure all our customers can be supplied by more than one treatment works by 2025

> Your customer service has been very helpful and you sent someone out to solve my issues quickly. Brilliant service, thank you very much.
>
> **Mr Bishop from Reigate**

OUR PLEDGE:

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.

Network Inspector Charlie Kennett taking emergency precautions while attending a customer's home during the pandemic.

Highlights

- We're on course to launch a new billing system this year, which will greatly improve the service we can offer by processing customer contacts and enquiries faster than we have before
- Despite the majority of our call handlers working from home over the past year, we have still been able to resolve over 80% of customer issues at the first contact
- We have continued to recruit and build a team of customer experience specialists, including our new Chief Customer Officer, Kate Thornton
- In the past year we have made steady progress up the C-MeX industry league table and are the most improved company for customer satisfaction
- We have continued to evolve our 'Voice of the customer' programme to give us much better insight into what our customers think, which helps us make more informed decisions
- We have strengthened our fleet of repair and maintenance vehicles with four new vans that will help us permanently repair roads much more quickly following our work

Network Fitter Jason Lester gearing up for a busy shift in one of our new repair and maintenance vehicles.

284,262

We handled many more enquiries from our customers this year as we supported them through the pandemic

I rang this morning to discuss closing my account, your colleague was incredibly helpful and polite, it was a really quick service which put my mind at ease.

Mr Fletcher from Carshalton

OUR PLEDGE:

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

Our pledge in action

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

Energy and Carbon Manager Henrietta Stock has made sure we are the first water company in the UK to have electric vehicle charging points at all our sites.

Highlights

- We became the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark for making our Elmer Treatment Works more attractive to plants and animals, with two more sites expected to follow by 2025
- We opened 'Flow Zone', our brand new, state-of-the-art education centre at Bough Beech Reservoir which will help us continue delivering our very successful education programme that started more than 20 years ago
- We have expanded our fleet of electric vehicles and our new company car scheme policy means all qualifying employees are provided with either electric vehicles or plug-in hybrids
- We were the first water company to offer virtual home water efficiency checks to help our customers save water, with our partners Save Water Save Money
- We formed our new independent Environmental Scrutiny Panel this year

Teaching good habits from an early age – we give reusable water bottles to children to cut down on single-use plastic.

266,045

We only use electricity from renewable sources and this year we have generated 266,045 kWh of our own solar energy at our sites

> Just wanted to say a huge thank you for a great school trip recently. This morning I taught my first geography lesson since the Bough Beech visit and the children's recall of knowledge about the water cycle was amazing, which shows the way you teach it really sinks in.

A teacher from a local school

Our performance

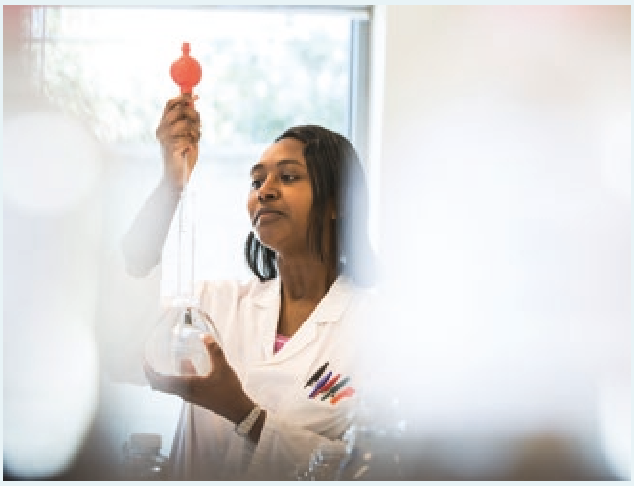
Delivering our customer and environmental commitments in the first year of our ambitious Business Plan for 2020 to 2025.

Water plays a role in all our lives and our customers rightly expect their supply to be clean and plentiful – even in the most testing of circumstances – and responding to a global pandemic has certainly tested us this year. This can be seen in our performance against some of our challenging targets, but at the same time we have remained focused on delivering what matters most to our customers.

That is the aim of our Business Plan, having conducted the most extensive customer engagement programme we have ever undertaken.

We listened to what they said and this led to us making five pledges that will not only improve the service we deliver but also enhance the environment and ensure we are playing our part in making it better.

Our pledges



All drinking water in the UK has to comply with stringent standards and we take samples at every point from source to tap.

High-quality water all day, every day

We pride ourselves on producing some of the highest-quality water in the country and for all water companies this is measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index (CRI). Our sampling programme normally includes going into customer properties to test taps but this was not possible during the lockdown restrictions, so instead we took samples from the homes of our employees living in our supply area, as well as our head office in Redhill. The CRI for the Company will be published in the Chief Inspector's Report in July 2021. During 2020 there were seven sample failures, which included one exceedance of the standard for benzo(a)pyrene at a commercial property. Investigations into each failure confirmed there was no concern regarding the quality of the wider network and remedial action resolved the local concern.

We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water. In 2020 we received 401 contacts which is above our target limit of 366 so we will receive a financial penalty from Ofwat. Whilst any penalty from our regulator is disappointing, this continues to be industry leading performance of which we are proud as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Illegal usage of hydrants can compromise water quality for paying customers and this year we have continued to pursue companies who do this – we believe it accounts for 20% of contacts from our customers.

In October, we successfully prosecuted a company for taking water from a fire hydrant using an unauthorised standpipe and we gave the fine it incurred and legal costs back to the local community who were impacted with cloudy water as a result.

Some planned interruptions to supply are unavoidable as we work to improve the long-term resilience of our pipe network but our performance this year largely reflects one significant burst last summer where our customers were without water for longer than three hours. Historically we perform very strongly in this area, amongst the best in the industry, so it's disappointing to miss the target this year. Our teams worked very hard to minimise the impact and we received positive feedback from customers about our response. While we aim to not have any burst mains, they do occur; however, the low number reflects the general good health of our network and the work that goes into maintaining it.

Around 85% of the water we supply comes from underground and we are unique in the industry in having a legal obligation to soften the groundwater we treat and a performance commitment on the amount of hardness in the water we distribute. To do this we make significant capital investment, which this year includes an upgrade to the softening capability at our Elmer Treatment Works. 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. Operational outages as well as site upgrades affect our softening capability and this is reflected in our performance against this target.

Fair prices and help when you need it

Most customers do not normally struggle to pay their bill but understandably this year we have seen a rise in the number of people with money worries due to their personal circumstances changing. Back in March 2020 we worked very quickly to introduce a payment holiday within five days of the first lockdown starting, and we provided more financial assistance per 10,000 customers than any other water company. This has now progressed into a new, permanent support option called 'Breathing Space', where customers can pause their bill payments while they get back on their feet.

We had a target this year for 12,000 customers to be benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. At the end of March 20,274 people were on this tariff, which means we are already surpassing the target we set ourselves for year three of this five-year Business Plan period. We will continue to welcome more customers onto the scheme who need it and also continue to raise awareness of the support on offer as we are currently not meeting the target for this commitment.

With just 7% of customers questioned feeling their water bill is not good value for money, this is within the target limit of 9%. Our average household bill for 2020/21 equated to around 50 pence a day, with money from bills playing a crucial part in funding our ongoing investment programme.

Our Priority Services Register provides extra support to customers who have health, access or communication needs and helps us tailor the help we can offer. 4.5% of our customers are on this register, higher than the target of 3.5%, and over 90% of people think the extra services offered are helpful, which is great news.

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

A service that is fit now and for the future

Since 2010 we have been progressing with a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages. Unfortunately last summer we were unable to progress with laying a strategic trunk main in Purley, which was a key part of the programme, but this work is now being re-planned and we are confident that we will be able to join up our network over the next three years and be the first water company to achieve this.

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

Managing leakage is one of our customers' top priorities and a key focus for us too - we have one of the lowest levels in the industry. In fact, we have stayed at or below the maximum allowed level of leakage every year since the target was first set over 20 years ago, which is particularly pleasing given the increase in leaks due to the challenging winter weather conditions. This was only made possible through a concerted team effort to drive down the backlog of jobs and respond to the increase in leaks reported. We are committed to significantly and sustainably reducing leakage levels for the long term, aiming to more than halve the water lost from our network and our customers' pipes by 2050. That's why we are investing in innovative technology and real-time data solutions with key partners such as Vodafone and Royal HaskoningDHV, to be the first water company with a totally 'smart' network.

Our performance
Continued

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. For the first time this year, we have a target to reduce the number of times customers have to contact us about the same issue, with 80% of contacts being resolved first time. Over the last year many more customers have needed our help, with things like home moves due to the stamp duty holiday and financial support following furlough, and we have been able to resolve 84% of these at the first contact. This is particularly pleasing given that there was the added complication of the majority of our call handlers working from home during lockdowns to keep them safe, which inevitably made meeting this target more challenging.

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 perception of the Company. While we did not meet our target of our score being in the top quartile of the industry, the year has seen sustained progress with quarter-on-quarter improvements, demonstrating that the investment we are making in the service we provide to our customers is working. We are also the most improved company in the league table for satisfaction; however, we acknowledge we must improve even further to reach a consistent upper quartile position, which is our goal. Our people are passionate about what they do and many are involved in programmes of work that we know will make a difference, such as improved complaints handling, listening to and acting on customer feedback and reducing bill shock.

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

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

Staying safe – taking extra precautions to make sure we could still help customers with water supply emergencies in their homes during lockdowns.

On the right road – as well as displaying an important message about saving water, our new grab lorry is packed with environmentally friendly features including conforming to the latest exhaust emission standards.

Support a thriving environment we can all rely upon

We're committed to reducing the impact of our essential service on the environment, while making a positive contribution to its quality. This year we were the first water company to achieve The Wildlife Trusts' Biodiversity Benchmark for making our land at Elmer Treatment Works more attractive to a variety of plants and wildlife. Covering over ten hectares, the accreditation process identified six significant habitats all found to be supporting species such as butterflies, dormice, badgers, lizards and slow worms.

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 addition to only purchasing electricity that has been generated from renewable sources, in the past year we have added to our fleet of electric vehicles and our new company car scheme policy means all qualifying employees are now provided with either electric vehicles or plug-in hybrids. Both of these initiatives are contributing towards our ambition of achieving net zero carbon by 2030 in the most affordable and resilient way. We are consulting with our customers on our routemap to get there and our Environmental Scrutiny Panel is providing an independent voice on our plans.

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. The hot summer as well as many more people being at home this year has seen household demand soar and we have therefore not met our target. Water meters are one of the most effective ways of bringing down consumption, but our installation programme slowed down significantly during the three lockdowns when we were only carrying out emergency activity in people's homes. However, we remained committed to helping our customers use less water and we were the first water company to offer virtual home water efficiency checks with our partners Save Water Save Money. We have started a programme to install meters for all our customers without one by 2025 and also plan to provide as many of them with smart meters as possible over the next few years.

There have been no category one or two incidents of pollution this year, as measured by the Environment Agency. There have been some less significant incidents, primarily caused by burst mains, but we are the only water-only company to have put forward a target in this area, another notable indicator of the importance we place on protecting and enhancing the environment.

Our performance
Continued

Our people

Pivotal to everything we do is our skilled workforce, many of whom have faced challenges of their own this year. Whatever their role, they are dedicated to providing our customers with great service and have shown determination, commitment and flexibility during an unprecedented time.

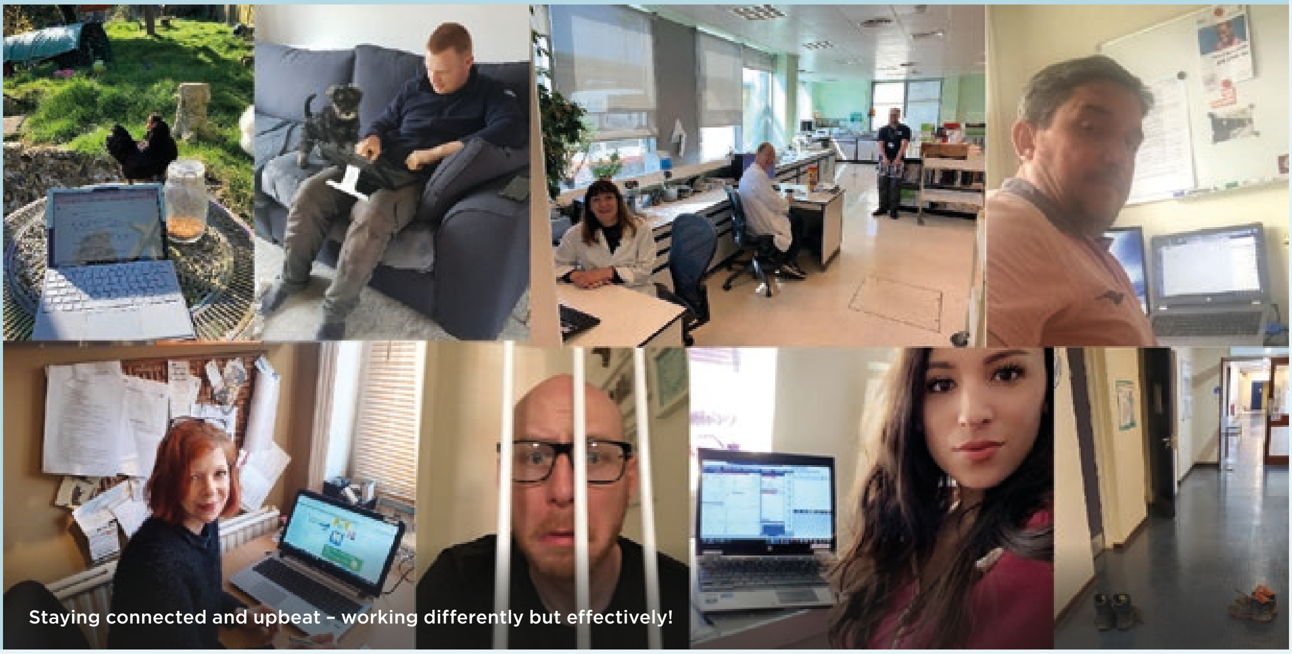
The physical health and safety as well as the mental wellbeing of our employees will always be our top priority and never more so than over the last year. Representatives from the Health and Safety Executive visited us this year to see our COVID-19 safety measures for themselves and were very satisfied with what they found.

Despite endeavouring for no safety-related incidents to occur, disappointingly there have been six lost-time accidents this year with two of those resulting in the employees needing extended time off work, so

Check it, don't regret it – with their 'stop card', our employees have the authority from CEO Ian Cain to stop work if they think the safety of our people or the public is compromised.

I've felt very supported at work while also managing some difficult personal situations too. Working at home has its benefits but I've also missed the spontaneity of seeing people in the office and those 'watercooler' moments!

Kevin Shilling, Procurement Manager



Staying connected and upbeat – working differently but effectively!

were reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). As ever, all incidents are thoroughly investigated and remedial actions are taken so we learn all we can, in discussion with our Health, Safety and Wellbeing Committee.

Our team of trained Mental Health First Aiders have gone above and beyond this year to support their colleagues – from being on the end of the phone to just chatting over a cup of coffee, they've been the first point of contact for people needing some extra support and guidance. We have also recognised the toll this difficult time has taken by offering free access to the Headspace app for all our people so they can benefit from some mindful meditation and get some perspective back.

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

Following the bereavement of both my parents, brother and sister in a two-year period, I believe these darker life experiences and my enjoyment of working with people has assisted me to support others as a Mental Health First Aider even if it is just for them to grab a coffee (or a beer!) and know they have support and someone who will listen.

Ian Adams
Head of Network

After being furloughed in my previous job and in lockdown for most of it, the opportunity to have a virtual catch up with colleagues on a Friday afternoon has been priceless. Chatting about anything without judgement. It's very strange joining a new company remotely but I feel I am meeting people, talking and looking at the positives in life even though I might have had a bit of a low week. The Steps Challenge in March got me off the settee. I donned my Tomtom watch and it made me walk my target which was five miles a day!

Joanna Hinchliffe
Learning and Development Manager

I've always enjoyed talking to people and finding out their life story. If someone sharing their thoughts and feelings helps them feel heard and understood, then I am more than willing to listen to anyone during a difficult time. There is much to be said for small talk with a little banter thrown in – it's the most underrated conversation as it shows you genuinely care when you ask how someone is.

Sharon Flores
Senior Learning and Development Advisor

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 wider social and environmental challenges.

Industry reflection

Last year Ofwat published a discussion paper providing its latest thinking on public value, following a range of conversations with water companies, and insights from annual reports and wider engagement with stakeholders.

Ofwat supports the work already being done across the industry to create greater public value and its strategy sets out that water companies will need to be run with a clear purpose, adding wider public value for customers and communities, as well as for shareholders. It is also keen that culture within water companies ensures every part of the business and every business decision is seen as an opportunity to add value to society.

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 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

Defining our purpose

Kate Thornton
Chief Customer Officer

Kate Thornton was appointed as our Chief Customer Officer in October last year and has been leading the development of our enhanced social purpose to help drive real change in the communities in which we operate.

In your view, why is it important the Company develops its purpose?

SES Water, and the organisations from which it springs, have been providing a vital service to our local community ever since water was first piped to people's homes in the 1800s and we're all really proud of the work we do. However, it's important we continue to evolve to meet the changing needs of our customers, communities and environment, and never has the topic of purpose been more relevant than today, as society looks to 'build back better' in the wake of the COVID-19 pandemic.

As a public utility, it's particularly important we show leadership as a purposeful company and so we've embarked on a journey with our employees, our customers, our community partners and wider stakeholders to recreate our purpose for today and tomorrow. This work is about much more than creating a story or a marketing strapline. It's about committing to an idea that will drive real change and deliver value for our business, our customers and the world around us.

Can you give a brief overview of the work undertaken so far to develop our purpose?

The approach we're taking centres on co-creation and genuine engagement. In addition to expert interviews and desk research, we've run a series of workshops with a cross section of employees, customers, community-based organisations and charities, our Board and members of our Customer and Environmental Scrutiny Panels to build and refine our thinking.

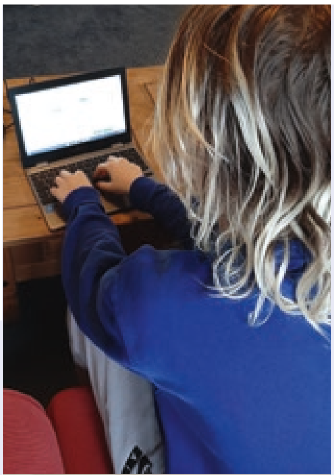
It's important to us to gather the input of customers and citizens in the widest sense, including younger people who will be tomorrow's bill payers, as our purpose will drive thinking and action over the long term. And it's just as critical that teams from across our business are involved in the process so it feels authentic and can be owned by all of our organisation long into the future.

What would you like the Company's refreshed purpose to convey to customers?

We'll know we've been successful if our customers recognise our purpose is genuinely addressing issues that matter to them, and believe that we are taking real action to make a positive difference and make the world we all share a better place. We hope they'll be as enthusiastic about it as we are, and maybe even want to collaborate with us on initiatives related to our purpose, because partnerships are one of the most important ways we can bring our purpose to life.

Doing more for our communities

In the past year we have awarded more than £27,000 to six local organisations through our charitable giving fund with the Community Foundation for Surrey, which is expected to have benefitted more than 800 people. The partnership forms part of our commitment to supporting worthy causes in the community and giving something back to those groups providing vital services for local people and disadvantaged individuals.



Thanks to SES Water for donating two brand new Chromebooks to help Transform clients. Due to COVID-19 one of our clients had lost her job, and without a phone or laptop, was finding it difficult to look for work. Her search for employment can now continue.

David Annand, Transform Housing & Support

Separate to our community fund we donated more than £9,000 received in fines and legal costs after successfully prosecuting a company for illegally taking water from a fire hydrant. The monies were donated to the Wallington Community Wellbeing Charity so that local people affected by the offence will enjoy some benefit.

We are enormously grateful to SES Water for this generous donation. As a small, local charity, every penny will be used to help relieve loneliness and isolation in older people and those with disabilities in our area. With the current COVID-19 restrictions, people are far more isolated than ever before and this is affecting their mental health and wellbeing so this gesture is very welcome. Thank you, SES!

Christine Lindsay, Wallington Community Wellbeing Charity

We have some new additions to The Food Club! We now have some aprons for our volunteers and a contactless card machine. Thank you to SES Water for donating towards The Food Club. A contactless machine means people don't have to risk using cash or spend time searching for the coppers!

Alice Oswell, Merstham Community Facility Trust

You're never too young to learn about water

As part of our education programme we produced 'Every Drop Counts', a hand illustrated children's story book, and donated more than 600 copies to several foodbanks, charities and children's centres across our supply area.

The book is aimed at a pre-school audience and explains the journey of 'Drop' the water droplet as she flows through the water cycle. The book also contains simple water saving messages to help younger children learn about the importance of using water more carefully.

For World Book Day we turned the book into an online animation, narrated by our customer Louise Redknapp, so even more people can enjoy the story and learn about the water cycle.

This is such a cute story and one which has helped bring a smile to the faces of my children during what has been a tough year for us as a family. Every time I've come home after work this week my daughter asks me to read the book to her, she really loves it. Thank you, SES Water.

A spotlight on...

Inspiring everyone to value our most precious resource

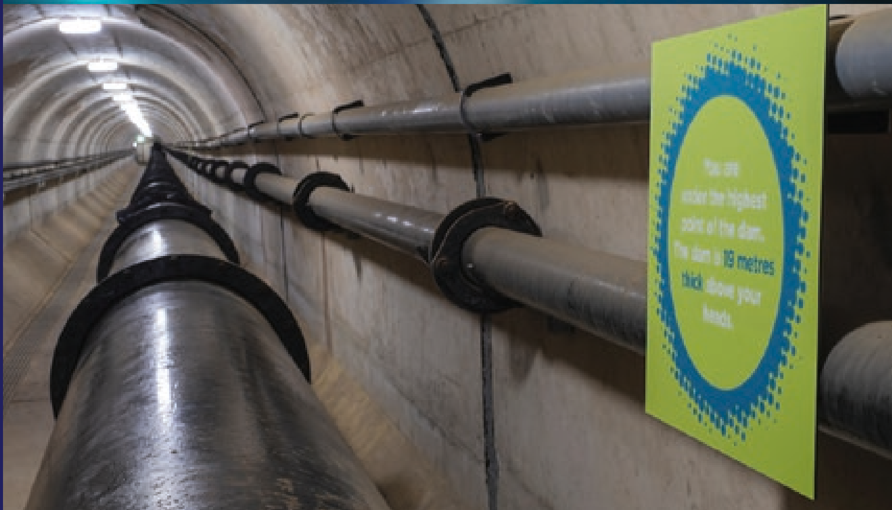
Last year we opened ‘Flow Zone’, our brand new, state-of-the-art education centre at Bough Beech Reservoir and Water Treatment Works, near Edenbridge in Kent.

A sensory experience involving light and sound, the new centre provides a number of interactive activities and experiences for students and adults to immerse themselves in learning about the water cycle, water usage and the importance of saving water.

The centre is a key part of our community engagement, and will allow us to continue inspiring future generations with our established education programme, which has been running for more than 20 years.

While the pandemic meant we were not able to host visits for most of the last year, we are very pleased to now be welcoming back groups to the centre, and seeing the success of such an important investment.

We have been visiting Bough Beech for many years. Not only do the children find it fascinating to see the water treatment process and the equipment that is used, us teachers also take away lots from the visit too! We were all surprised to learn about how much water we waste each day in this country. It was a real eye-opener and something that will definitely influence my approach to saving water in the future.



Market review

The last year has been dominated by COVID-19 and the water industry has felt its impact in many ways. Playing an active part in the response to the pandemic and contributing to the recovery has become a priority for all water companies, resulting in both short and long-term actions to support customers, employees and wider society.

A key sector at the heart of society

Market driver	What's happened?
Supporting the COVID-19 recovery	
The COVID-19 crisis presents water companies with a golden opportunity to build stronger relationships with their customers and be seen as a source of invaluable support. **Emma Clancy, CEO, CCW**	The pandemic has affected the water industry's day-to-day operations. Water company employees were categorised as key workers early in the pandemic; however, social distancing measures and multiple lockdowns have made the delivery of some aspects of our work more challenging. The increase in people working from home, not going on holiday and school closures has meant that household customers have been using significantly more water but demand from non-household customers has fallen significantly. Ofwat commissioned a report by Frontier Economics to look at the impact of COVID-19 on the sector and is considering how the performance commitments most affected, particularly the targets for reducing household consumption, will be addressed if companies are unable to achieve their Business Plan targets. There has been an increase in customers struggling to pay their water bills and the collection of charges from business retailers has also been affected. CCW has undertaken an affordability review to look at the financial support measures currently on offer to customers and to identify opportunities to improve what is available, particularly in light of the pandemic. Retailers are offering a COVID-19 repayment scheme to eligible business customers.
Delivering transformational innovation	
The introduction of innovation funding and an innovation competition will act as a catalyst for change, encouraging new ideas and approaches to help address current challenges. **John Russell, Senior Director, Ofwat**	Ofwat established its £200 million innovation fund to grow the sector's capacity to innovate and meet the future needs of customers, society and the environment. It ran the first round of the Innovation in Water Challenge, an opportunity to receive up to £250,000 in funding. The water industry produced its first Innovation Strategy, focused on delivering collaborative, transformational innovation across the sector.

There has remained a firm focus on the environment with the industry committed to helping address the climate emergency and being central to the delivery of the Government's ambitious environmental agenda. Providing sustainable and resilient water supplies within the context of a changing climate and growing population, while also keeping bills affordable, is a significant challenge and one that is being addressed collaboratively by the industry and its regulators. Water UK has consulted on a new strategy for the sector that brings increased environmental ambition together with a range of other challenges and opportunities. We will play an active role in shaping this over the coming months.

The Competition and Markets Authority (CMA) has spent the majority of the year determining the price reviews of Bristol Water, Anglian Water, Yorkshire Water and Northumbrian Water. It has set a higher rate of return for investors and all four companies have been awarded additional funding to deliver service improvements resulting in customer bills falling by an average of £34 per year over the period – a smaller reduction than that proposed by Ofwat in the Final Determinations. Meanwhile, Ofwat has turned its focus to the next price review in PR24, using learnings from both PR14 and PR19 to help inform the process.

What have we done?

We have continued to work as part of an industry-wide group, co-ordinated by Water UK, to respond to the pandemic.

We have provided our employees with the protective equipment and safety procedures needed to maintain as much of our operation as possible, although some non-emergency activity in customers' homes was stopped during the lockdowns. The majority of office staff have worked from home and there has been restricted access to key sites. We had a successful visit from the Health and Safety Executive to inspect the measures we have put in place. We have also increased the mental health and wellbeing support available to our people.

We fully participated in Ofwat's support package for the business retail market, which included financial support for our business retailers in the form of a deferred payment scheme for their wholesale water charges.

More than 10,000 customers took a three-month bill payment holiday and over 20,000 are on our Water Support Scheme, receiving a discounted tariff. We have provided evidence to CCW's affordability review and are working with them and Ofwat on their 'Listen, Share, Care' campaign to understand customers' experiences of the pandemic.

We've contributed to the community effort in lots of ways, including by helping to set up the new NHS Headley Court Hospital and through donations to the Surrey Coronavirus Response Fund.

We submitted two lead entries to the Innovation in Water Challenge and also collaborated on five applications by other water companies. While we were unfortunately unsuccessful on our two lead entries, we are pleased to be partnering with South East Water and other companies to deliver the successful CatchmentLIFE application, which will build bespoke software that volunteers and experts can use, showing the impacts of habitat degradation on wildlife and ecological communities.

We led the water industry's programme of research into leakage reduction being delivered by UK Water Industry Research (UKWIR), which brings together water companies, academics and the supply chain. This included the development of a leakage 'heatmap' which collated all the research and innovation currently being carried out by water companies to help support greater collaboration across the sector.

Our partnership with Vodafone, Technolog and Royal HaskoningDHV to roll out a completely smart pipe network was shortlisted in the annual Water Industry Awards.

We supported the development of the water industry's first Innovation Strategy which includes plans for a virtual Centre of Excellence to support sector-wide innovation.

In summary, for us to deliver more of what matters most to our customers, improve the environment we depend upon, address future challenges, and become more effective and efficient, we need to innovate.

Market review

Continued

Market driver	What's happened?

Protecting and improving the environment

The Environment Bill will facilitate more responsible management of water, so that we have secure, safe, abundant water for the future, supporting a more resilient environment. We know that nature needs our help to recover.

George Eustace, Secretary of State for Environment, Food and Rural Affairs

The Government's Environment Bill, which will deliver the aspirations of its 25-year Environment Plan and its ambition to leave the environment in better shape than it found it, has continued its journey through Parliament, although it has been delayed as a result of the pandemic. The water industry has continued to lobby to enhance national standards for water efficiency – including a mandatory water labelling scheme for water-using appliances. Defra is considering the inclusion of a water-related target within the bill.

A second chalk streams summit was held that brought together Government, regulators, water companies and environmental groups, and a national chalk streams management and restoration strategy is being developed. An All Party Parliamentary Group on chalk streams has also been established.

Water UK has developed a routemap so the industry can deliver its commitment of a net-zero carbon emissions water supply by 2030.

Setting the path for the price review and public value

We need to adapt our framework so we can best meet the needs of customers, the environment and wider society.

PR24 and beyond: Future challenges and opportunities for the water sector, Ofwat

Ofwat began a programme of work around the future of water regulation and the design of future price reviews. This included a call for input from companies on previous price reviews and upcoming challenges, together with the launch of a 'Future Ideas Lab' to enable stakeholders to collaborate in the process. It has produced its lessons learned from PR19 and published its early thoughts on the role of customer engagement in future price reviews. CCW has also produced a review of customer engagement during the last price review and a framework for future water company research.

Ofwat has also considered the role regulation might play in the delivery of greater public value and how this can be monitored and measured.

The CMA published its redetermination of the business plans of the four companies who appealed against Ofwat's Final Determination.

What have we done?

We formed our Environmental Scrutiny Panel to advise, scrutinise and challenge the development of our environmental vision and how we implement it across the Company.

We became the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark at our Elmer Treatment Works, with work continuing to achieve the accreditation at two other operational sites by 2025.

We appealed to Government to set a water-related target that considers overall water use, not just that used by domestic consumers, to encourage all sectors to become more water efficient.

We're working as part of Water Resources South East (WRSE), which represents an alliance of six water companies that cover the South East region of England, on the development of a regional plan to secure resilient water supplies for the future that addresses the impact of climate change and delivers long-term environmental improvement, including the reduction of damaging abstractions from sensitive chalk streams.

We opened our brand new education centre at Bough Beech Reservoir in October 2020 and welcomed our first visitors. The pandemic curtailed face-to-face activity over the winter, but instead we provided virtual lessons to schools and produced a book for children about the water cycle and the importance of reducing water use which was distributed to local charities and community groups to give to vulnerable local children.

We have been contributing to Ofwat's work through the submission of responses to its customer engagement and public value discussion papers, as well as attending virtual workshops. We also carried out an assessment of PR14 and whether it achieved its objectives, resulted in unintended effects, was still valid for future price reviews and could be made more effective, which was submitted to Ofwat as part of its evaluation work.

Some of our senior executives met with Ofwat to discuss the concept of public value, what we are already achieving beyond our core role and the journey we are on to become a more purposeful company.

Our approach to the environment and climate change

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

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

Developing an environmental, social and governance strategy

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

The ESG framework that we will use to develop and embed our ESG strategy is provided below. During the next year, with the support of our customers, employees, shareholders and other stakeholders, the Board will develop and communicate the key initiatives that underpin each of the elements within the ESG pillars and communicate with all parties the work being done – and support required – to meet such goals.

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

Environmental

Climate change (reporting)

Carbon transition
PIC – achieve net zero carbon emissions

Sustainable water management
PIC – triple leakage reduction

Customer usage reduction

Waste and pollution
PIC – prevent four billion plastic bottles ending up as waste

Biodiversity Benchmark

Water Industry National Environment Programme (WINEP)

Social

Health and safety

Customer relations

Priority Services Register

Education and social mobility
PIC – be the first sector to achieve 100% commitment to the Social Mobility Pledge

Access and affordability
PIC – strive to end water poverty

Workforce relations and equality, diversity and inclusion

Charitable giving and community support

Governance

Board structure and diversity

Policies and procedures

Pay and reward

Shareholder returns

Bribery and corruption

Political lobbying and donations

Governance and reporting of our ESG strategy

Several elements of our ESG strategy are already in place and governed via a series of Board and management level committees across the business. These will be supplemented by an ESG Committee, led by the Chief Financial Officer, in the coming year to ensure all aspects of the ESG strategy are progressing and there is requisite reporting to the Board. This governance structure, and the roles of each Committee, are presented below.

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

Board ownership

Nomination Committee

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

Remuneration Committee

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

Audit Committee

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

Governance Committee

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

Energy Strategy Committee

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

Health, Safety and Wellbeing Committee

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

Executive management ownership

Equality, Diversity and Inclusion Committee

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

Independent scrutiny panels

Environmental Scrutiny Panel

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

Customer Scrutiny Panel

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

Environmental, Social and Corporate Governance Committee

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

Sustainability
Continued

Our approach to the environment and climate change

While the Board, with executive management, will continue to develop and embed our ESG strategy in the coming year, we have already made progress in two key aspects of the environment pillar – reporting on climate change and the focus on our journey to net zero carbon.

Climate change reporting

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

We have always reported certain aspects of climate-related disclosures under our regulatory requirements (such as greenhouse gas emissions), but this year we have taken the first steps to integrating these requirements into our Strategic report.

Governance

Progress to date
- Clearly defined Board responsibility for the oversight and challenge of our overall strategy, including the ESG strategy, which includes climate-related issues in our Business Plan and exposure to risk
- Use of the Energy Strategy Committee to specifically review matters associated with climate change, including aspects of our route to net zero carbon, such as fleet electrification and solar power generation
- Formation of an independent Environmental Scrutiny Panel, which includes various third parties such as representatives from the Environment Agency, to review and challenge climate-related initiatives, metrics and goals

Plans for 2021/22
- Enhancement of the climate-related governance into the wider ESG framework and strategy, ensuring appropriate accountability for progress towards key climate-related goals, such as carbon transition

Strategy

Progress to date
- Set out 2020 to 2025 performance commitments with financial penalties for greenhouse gas emissions
- Water resource models including climate scenario analysis
- Climate change resilience explicitly set out in our Business Plan
- Strategic commitment and performance pledges including climate-related matters

Plans for 2021/22
- Enhancement and development of our wider ESG strategy, including climate change-related strategies
- PR24 strategic planning to include climate mitigation pledges and long-term climate projections

Risk management

Progress to date
- Identification and alignment of climate change risk and opportunities into our risk register, including consideration of water resource risks
- A robust review to identify which corporate risks would be influenced by climate change
- Publication in this Annual Report of the risks identified as being particularly sensitive to climate change
- Consideration of the financial risks associated with additional climate change investment as part of our long-term viability statement, inclusive of scenarios required to achieve net zero carbon by 2030

Plans for 2021/22
- Integrate further climate change transitional risks into the risk register, including the risk associated with funding our transitional climate change goals in the future

Metrics and targets

Plans for 2021/22
- Environmental metrics will be built into Board LTIP plans – see more detail on page 94
- In 2021/22 we will publish our net zero carbon route map

Carbon transition – our progress to net zero carbon by 2030

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

At SES Water, we currently emit 2,550 tonnes of carbon per year in the delivery of the high-quality drinking water we produce. This is 89% lower than ten years ago because of changes we have already made to how we source and use energy. This has included purchasing 100% of the electricity we use from green sources, increasing the number of electric vehicles in our fleet, improving how we monitor and control our energy use and investing in renewable energy generation at our own sites including solar generation. However, there is much more to do. Our current Business Plan performance commitment is to maintain 55 kgCO_2e/megalitre until 2025, but to achieve net zero by 2030 we must go further and faster.

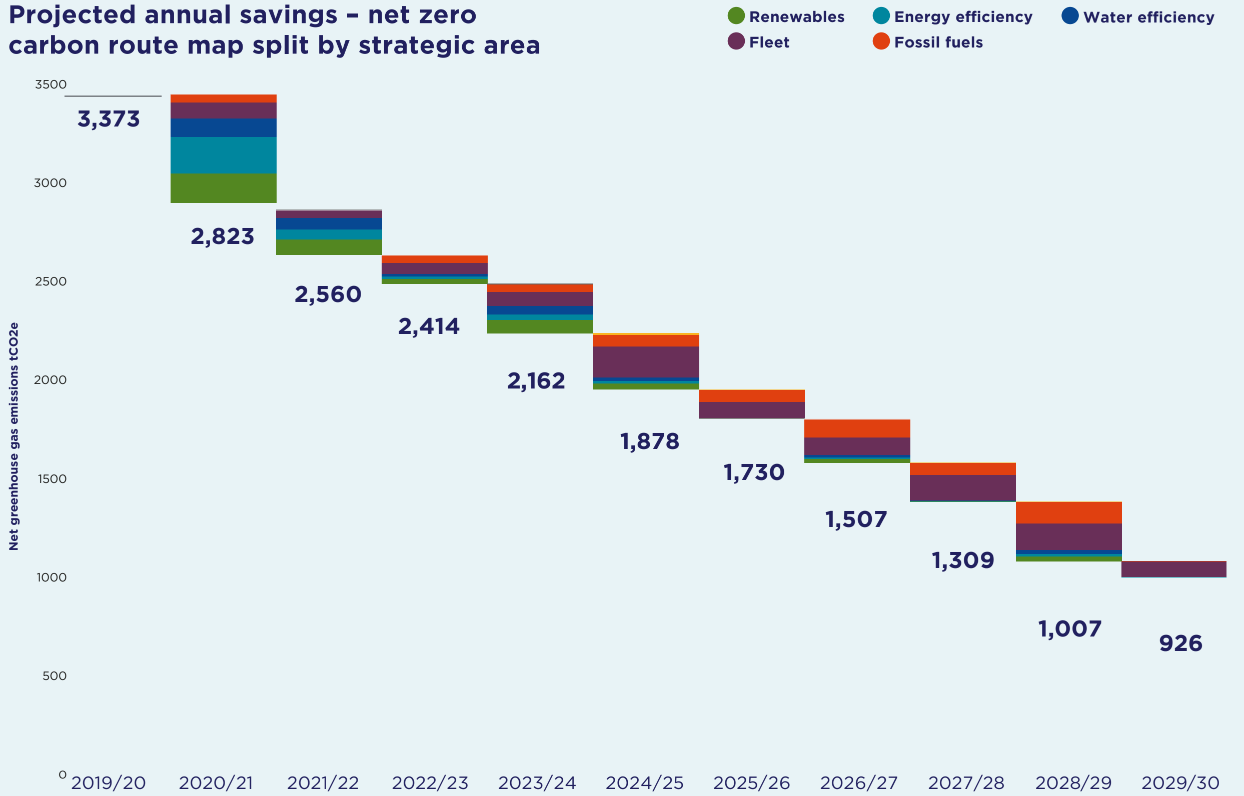
Read more about our greenhouse gas emissions this year in the Directors' report on page 104.

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

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

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

Projected annual savings – net zero carbon route map split by strategic area



N.B. the data in this table is a forecast and is based on our ambitions set out in our net zero carbon routemap

An independent view on our plans and performance

Expanding the scope and focus challenge

This year we took the decision to boost the level of independent scrutiny on what we do by forming an Environmental Scrutiny Panel (ESP) to work alongside our already established Customer Scrutiny Panel (CSP). Together the groups look across our current performance and future plans, providing expert input and challenging the level of ambition for the benefit of customers and the environment.

The two panels have equal standing and work collaboratively – including via joint sub-committees focused on areas of shared interest – reporting on their findings 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
Chair's report

The Environmental Scrutiny Panel
The ESP was established in April 2020 to scrutinise, challenge and help accelerate our environmental ambition and to ensure that the needs of the environment are integral to our strategy and operations. It monitors our delivery against our Business Plan commitments related to the environment, alongside our wider environmental performance, whilst simultaneously challenging that we look further into the future and develop a robust long-term environmental strategy with tangible outcomes for the local community. The ESP is chaired by Alison Thompson and its members have a range of interests and expertise in environmental matters.

Alison Thompson
Chair, Environmental Scrutiny Panel

Scrutinising performance

SES Water has pledged to, 'support a thriving environment we can all rely upon'. Since our inaugural meeting, we have been scrutinising the delivery of the Company's environmental performance commitments alongside its wider Business Plan obligations, as well as how it is contributing to delivery of the industry's Public Interest Commitment (PIC) that relates to the environment. The PIC sets out how water companies will continue to strengthen the work they do for the good of the public and enshrine this as an integral part of their purpose.

In addition, we have contributed knowledge and expertise, challenging the Company to think differently about its long-term strategy and ensuring regional alignment with its neighbouring companies.

The English water companies have made a PIC to achieve net zero operational carbon by 2030. SES Water has been developing its own net zero routemap (see page 45) and we have challenged its scope and goals as we believe that the next step in developing a robust response to climate change will be how it can adapt and build greater resilience to what is already 'locked in' while at the same time mitigating further impacts.

The demand for water companies to contribute to a green recovery and invest in nature-based solutions is growing. We are delighted that the Company has achieved the gold standard in The Wildlife Trusts' Biodiversity Benchmark for enhancing the biodiversity at its Elmer Water Treatment Works and will be keen to review how this initiative is rolled out at other sites.

We recognise that delivery of the first year of its ambitious Business Plan, in particular the target to reduce how much water household customers use, has been impacted by COVID-19 restrictions. Driving down overall water demand, through a strategic approach to leakage and water efficiency, is an area of great prominence. Long-term water scarcity issues, exacerbated by population growth and climate change impacts in the South East, mean that investing in the best available technology and empowering customers to play their part is increasingly important.

An area in which we have challenged hard this year is the Company's smart metering programme. We consider the commitment in its Business Plan – to meter 90% of its customers with at least 10% receiving a smart meter by 2025 – to not be ambitious enough, or in line with the increasing digital expectations of customers. It is a trend that is only compounded by the pandemic and evidenced further in recent online customer research groups. We are therefore encouraged the Company is showing evidence of listening and actively developing a case for a deeper reaching smart metering programme.

Engaging with future customers on the environment is an area where we would like to see more action, both by SES Water and the sector in general. Positive steps have been taken this year in terms of embracing online lessons for schools and opening a brand new education centre at Bough Beech Reservoir.

Looking to the future

SES Water has shown it is open to well-evidenced and well-argued challenge. We have enjoyed testing Board thinking and having constructive discussions with team members. A tangible example is the Company's agreement to develop a long-term Environmental, Social and Governance (ESG) Strategy, thereby responding to our challenge on long-term thinking. Mindful of growing environmental need, stakeholder expectations and wider public value, this work will be underpinned by the outcomes of its work on enhancing its social purpose, which the ESP has critiqued, together with the CSP. We welcome this more strategic, forward-thinking ambition.

Alison Thompson
Chair, Environmental Scrutiny Panel

SES Water has shown it is open to challenge and we have enjoyed testing thinking and having constructive discussions.

An independent view on our plans and performance

Continued

The Customer Scrutiny Panel
Chair's report

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. Chaired by Graham Hanson during the year, most of the members of the CSP are also SES Water customers.

Graham Hanson
Chair, Customer Scrutiny Panel

Until April 2021

Scrutinising performance

2020/21 has been a difficult year due to the impact of COVID-19 and, as a small company, SES Water's resilience has been stretched like many others in the industry. The CSP commends the Company on its positive and compassionate response to the pandemic, both internally, through the support it has given to employees, and externally with customers.

We have continued to meet virtually with the Company on a quarterly basis to review and provide constructive challenge on performance against the customer commitments in its Business Plan. Performance over the year has been mixed, even accounting for the pandemic impact, and some key commitments were missed.

The target to reduce customer water usage was not met – although this was impacted due to people being at home more – and the supply interruptions target was missed due to a single significant burst last summer. However, although challenging, the leakage reduction target was achieved, and the Company continued to perform well in supporting customers in vulnerable circumstances. In addition, because of focused attention on the customer experience (C-MeX) performance commitment, including regular deep-dive reviews with the CSP, there was a continuous improvement in the C-MeX customer satisfaction score. This confirms that the programme is delivering the right initiatives to improve service to customers.

We have also closely monitored the broader customer transformation programme, which is aimed at delivering further improvements to the customer experience.

Unfortunately, COVID-19 impacts on staffing has created slippages in key dates and the operational 'go-live' for the new billing system is now expected later this year. So, while positive progress has been made during a difficult situation, we will continue to closely scrutinise the various customer experience activities underway, as the Company must continue to improve so it moves out of the lower half of industry performers in this area.

Looking to the future

In the coming year, the Company is embarking on an ambitious programme to become a more purposeful organisation. We are actively involved in supporting this programme, which includes creating closer and more meaningful relationships with customers and the local community. Linked to this, the Company is building on its 'Voice of the customer' research programme, to further enhance its understanding of customer needs and priorities and drive ongoing improvements to service.

For my part, this is my last Annual Report as CSP Chair, as my final term of office concluded this year. I have been honoured to have had the opportunity to chair a panel of such committed members, representing the interests and expectations of SES Water's customers. The next few years will be critical for the Company to move forward and improve its comparative performance in the industry and beyond, and I have no doubt the CSP, and its incoming Chair, will continue to ensure that the 'Voice of the customer' remains at the heart of its activities.

Graham Hanson
Chair, Customer Scrutiny Panel

Steve Crabb
Chair, Customer Scrutiny Panel

From April 2021

Meet our new CSP Chair

We are pleased to welcome Graham's successor, Steve Crabb, to chair our panel. With a background in customer experience across a number of industries and with a particular passion for supporting people in vulnerable circumstances, Steve tells us about his new role.

What interested you about the role?

Firstly, I think SES Water is a great company with a really impressive vision for the future. It's also large enough to make a difference yet small enough to be agile and really understand its customers. Secondly, I have a lot of experience around chairing, bringing an 'outside-in' perspective to organisations and constructively challenging to drive improvements in service, so this seemed like a great fit.

What can you tell us about your past experiences and achievements related to the position?

I started my career as a business journalist, asking difficult questions to help organisations improve what they do. I then worked for a number of leading charities, campaigning on behalf of people who are often marginalised in society, before joining British Gas to set up its first dedicated team for vulnerable customers, driving continuous improvement in the services and support offered to consumers in vulnerable circumstances.
Since leaving there in 2019 I've been an independent chair and consultant, specialising in consumer affairs.

What do you hope to achieve?

To continue the great work which has been done by Graham and the members, to support the panel so it functions as a highly effective team, to work with and constructively challenge CEO Ian Cain and the team and to bring new perspectives to SES Water as it faces complex new challenges and devises innovative new ways to respond based on customer insight and engagement.

What do you think of SES Water's current approach to its customers?

I am enormously encouraged by what I've learned so far about SES Water's determination to understand and engage with its customers, and by the quality of the people I've met from both the business and the Customer Scrutiny Panel.

What do you think are the biggest challenges facing the water industry?

There are so many! Becoming genuinely customer-centric is one of them – water companies have historically been better at dealing with pipes than people. The drive to net zero carbon. Finding ways to reduce water usage while demand is growing. Reducing leakage and abstraction.
In the short term (we hope!) coping with the impact of COVID-19.
Thinking long term in a regulatory environment that works in five-year cycles. Successfully navigating these challenges will require innovation, collaboration and above all ensuring that customers are fully engaged with the changes needed.

How do you think SES Water can play a bigger role in the communities it serves?

Water companies have the potential to play a pivotal role in our communities as – uniquely among essential services – they are grounded in specific localities and they have a direct relationship with the customers they serve. They can ensure communities run smoothly, help them become more resilient to the effects of climate change and extreme weather events, and enable them to deal with emergencies. But tackling the challenges that SES Water faces will require fresh thinking about what we mean by 'community'. SES Water serves an incredibly diverse range of people and places in a relatively small area, from Box Hill to the Benhill Estate. The Company's programmes of insight and engagement should drive a far better understanding of the needs and wishes of all SES Water's customers, and ensure that this diversity becomes a source of strength, highlighting new opportunities for collaboration and innovation that will lead to deep and lasting changes in the way we use, and think about, water.

Steve Crabb
Chair, Customer Scrutiny Panel

Our stakeholders

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

Stakeholder group	What they expect
Customers	Our water to be high quality and safe all the time Our service to be reliable and resilient We reduce leakage We help people cut how much they use We keep our call centre local We support vulnerable customers We help to improve the environment and contribute more to society Our bills are fair and affordable, and we provide value for money
Employees	Training and development opportunities Fair pay and recognition of good performance We attract and retain high-quality employees We are a responsible local business that plays an active role in the communities that we serve A healthy, safe, inclusive and diverse working environment
Regulators	We build trust and confidence in the sector We deliver on the promises we have made in our Business Plan Our bills are affordable for all customers We contribute to improving the environment We increase our resilience to a range of events We are efficient and innovative We have a positive impact on society
Local community groups	We play an active role in the communities we serve We support those who are most vulnerable in our communities We create and protect local jobs in the community We carry out work in roads and public spaces in a way that has minimal impact on communities and businesses
Local authorities	We plan ahead to meet the needs of a growing population We soften our water in areas where it is naturally hard We work with them and other parties to limit disruption to local areas
Environmental organisations	We are guardians of the natural environment Our operations do not cause environmental damage Our decisions are based on long-term environmental sustainability
Our suppliers	A transparent and compliant procurement process Mutual adherence to legal obligations such as being free from modern slavery Contractual arrangements including provision for data protection Prompt payment for goods and services Efficient and effective working practices as partners A focus on health and safety

Understanding who they are

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

We are also in daily contact with our shareholders, who have non-executive representation on our Board and who also second individuals into our business to work beside senior management, lending support and insight to our work. Our shareholders, and the structure in which they operate, are described in more detail on page 13.

How we engage	How we create value for them
Our dedicated 'Voice of the customer' programme which includes a range of activity to better inform the decisions and improvements that we make Online 'Talk on Water' community Our education programme Attendance at community events Our independent Customer Scrutiny Panel	Business Plan targets reflect customer priorities including: – 15% leakage reduction – 7.3% reduction in consumption – 25,000 people on our Water Support Scheme – 100% of people will be served by more than one treatment works – 90% of our customers on a meter Our call centre will continue to be based in our local area Bills will fall by 15.6% by 2025 Significant investment in our digital capability to better serve customers
Annual employee engagement survey Roundtables involving all employees and the directors and CEO Dedicated Board member responsible for employee engagement Senior leader visibility and accessibility Staff suggestion scheme Structured development and appraisal programme	Investors in People silver accreditation Performance management system and skills strategy in place Industrial cadets programme to attract young people to the Company 'Live local work local' initiative Employee volunteering scheme Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a two-year pay deal More flexible working practices going forwards
Regular meetings with all our regulators including by our non-executive directors Regulator attendance at Board meetings Responding to consultations and information requests Participation in national campaigns Sharing our expertise and perspective through industry-wide forums	Maintaining our gearing at a level that is acceptable to Ofwat Updated dividend and executive pay policies Lowered bills by more than 15% and committed to supporting 25,000 people with our Water Support Scheme Pledged to make £9 million of efficiency savings between 2020 and 2025 Leading the industry's research and innovation programme to reduce leakage Signed up to the Social Mobility Pledge Participation in Ofwat's innovation competitions
Membership of local business forums Working with organisations that help vulnerable customers Supporting worthy local causes with volunteering time and financial donations Our education programme	More than £27,000 of community grants provided through the Community Foundation for Surrey Extending our education programme to reach more schools, young people, business and community groups Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme Provided payment holidays and automatic enrolment onto our Water Support Scheme to those affected by the COVID-19 pandemic
Meetings with Chief Executives Supporting local economic prosperity initiatives Project-specific department engagement such as highways Participation in local resilience forums	Planned for a 50% increase in the number of people living in our area by 2080 Investing £11 million to deliver our softening operations and committed to keeping average hardness levels at no more than 80mg of calcium per litre per fortnight Delaying some of our mains laying activity to minimise further disruption during the COVID-19 recovery
Involvement in our local catchment partnerships One-to-one meetings Independent Environmental Scrutiny Panel	Specific targets in our Business Plan to: – Not cause pollution – Increase biodiversity at our sites – Reduce abstraction from two sources during low flows – Reduce our carbon emissions
Dedicated relationships depending on the scope and nature of the arrangement Our procurement team and supplier forums Annual performance reviews for business critical suppliers	Productive and stable working relationships Agile decision-making as a small company Participation in joint industry award entries Testimonials and PR

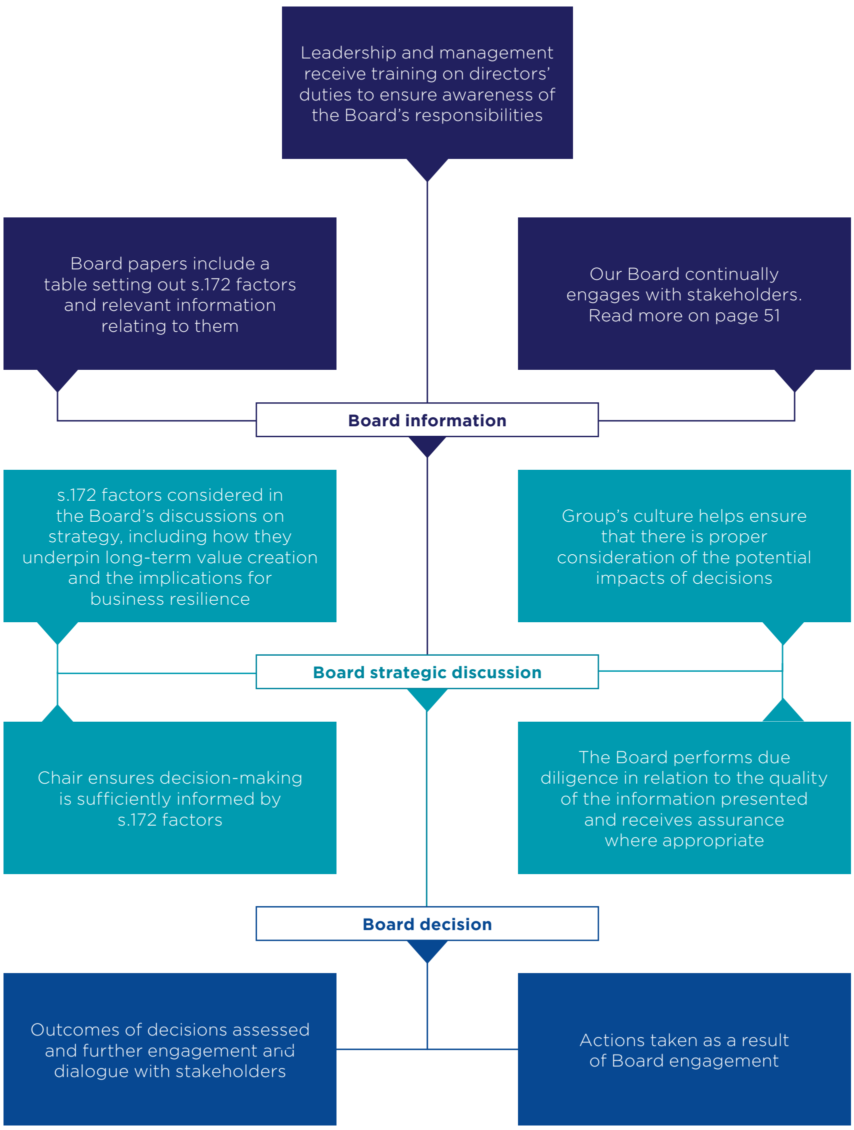
Section 172 statement

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, too. There is a role for the Board to play in assessing the needs of different stakeholders and carefully considering competing priorities as part of the decision-making process.

Our process

A key reporting requirement is a statement of the directors on our compliance with section 172(1) of the Companies Act 2006. This includes the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard. You can read our statement, along with some examples in action, on page 72.



A focus on employee engagement

Independent non-executive director Dave Shemmans is the Board's lead on engaging with the workforce and has helped ensure the employee voice is heard in key discussions and decisions. He attends the Joint Negotiating and Consultative Committee annually where he speaks directly with the representatives without management being present. This year, key topics of discussion have included the response to COVID-19, the pay deal, mental wellbeing and the move to electric vehicles for the company car scheme.

> I value the openness of employees in sharing their views with me directly so that the Board can make decisions that are better informed by the people who are so important in delivering what matters most to our customers. Equally, I hope I have been able to give the reps an independent opinion on a number of areas that are important to them, from my perspective as an experienced CEO in a different industry.

Dave Shemmans
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, such as the go-live criteria for the new billing system and the key learnings from PR19.

Progress on the creation of our smart pipe network

customers, suppliers, local authorities and environmental organisations

Implementation of a new billing system

customers, employees and suppliers

De-briefing on the PR19 price review process and planning for PR24

customers, employees, local community groups and regulators including Ofwat

Customer service improvement plans

customers, employees and regulators including Ofwat and CCW

Managing lead in drinking water

customers and regulators including the Drinking Water Inspectorate

Our financial performance

Paul Kerr
Chief Financial Officer

I am pleased to report that our Company has remained financially resilient while still being able to deliver for our customers throughout the year.

At the end of what has been a challenging year for all businesses as a result of the COVID-19 pandemic, I am pleased to report that our Company has remained financially resilient, while still being able to deliver for our customers throughout the year. In particular, from a financial perspective, it has been important for us to ensure that the appropriate support was available for our customers when they needed it the most – and in the year, more than 20,000 customers benefitted from our Water Support Scheme and in response to the pandemic we launched our payment holiday programme 'Breathing Space'.

As expected, our revenue reflected the re-basing of tariffs under the PR19 price review, which lowered bills for our customers when compared to prior years. However, the impact of COVID-19 lockdowns has also impacted revenue in the year, with higher domestic usage for our measured customers mitigating to a degree the more significant decline in non-household consumption. Under the regulatory model we will be able to recover shortfalls in this year's allowed wholesale revenue in 2022/23.

This decline in water revenue has been partially offset in the year by an increase in non-water revenue from the prior year. Overall total revenue has decreased by £4.0 million (6%) to £65.8 million (2020: £69.8 million).

Operating profit was down by 46% from prior year to £11.1 million. In addition to the impact of lower revenue, we spent more on power to pump water around our network to meet increased customer household usage and on labour and hired and contracted costs to support our customer targets performance. As expected, our bad debt cost increased as difficult economic conditions resulted in lower cash collections from our household customers. This increase in costs was partially offset by an increase in other operating income from insurance receipts related to damage caused by a chemical spill in 2017 at Elmer Treatment Works.

Profit before tax benefitted from the lower inflation on our index-linked debt. Our tax charge for the year was £0.2m, which is an effective tax rate of 6% (see Note 10 on page 134 for our detailed tax reconciliation). The 2020 charge

Financial performance

Our financial results are summarised in the table below. For more information refer to the statutory financial statements from page 114.

Year ended	**2021 £000**	2020 £000	Change £000	Change %
Measured water revenue (household)	**31,058**	29,566	1,492	5%
Unmeasured water revenue (household)	**21,551**	24,768	(3,217)	(13%)
Total water revenue (household)	**52,609**	54,334	(1,725)	(3%)
Wholesale revenue from retailers (non-household)	**7,360**	10,862	(3,502)	(32%)
Other water revenue	**742**	843	(101)	(12%)
Non-water revenue	**2,952**	1,718	1,234	72%
Non-appointed revenue	**2,156**	2,065	91	4%
Total revenue	**65,819**	69,822	(4,003)	(6%)
Operating expenses	**(54,320)**	(47,751)	6,569	(14%)
Other operating income	**2,202**	119	2,083	1750%
Net impairment losses on financial and contract assets	**(2,589)**	(1,760)	(829)	47%
Operating profit	**11,112**	20,430	(9,318)	(46%)
Finance income	**706**	444	262	59%
Finance expense	**(7,950)**	(10,201)	(2,251)	22%
Profit before tax	**3,868**	10,673	(6,805)	(64%)
Tax charge	**(236)**	(6,028)	(5,792)	96%
Profit after tax	**3,632**	4,645	(1,013)	(22%)
Dividends paid	**4,910**	6,100	(1,190)	(20%)
Capital additions including intangibles	**26,491**	35,600	(9,109)	(26%)
Net pension scheme asset	**19,470**	26,362	(6,892)	(26%)
Cash and cash equivalents	**25,601**	25,630	(29)	(0%)
Net debt	**186,631**	170,411	16,220	10%
Interest cover ratio	**1.6x**	2.1x		
Regulatory gearing	**70.9%**	64.9%		
Bond gearing	**78.2%**	72.0%		
Moody's credit rating	**Baa2-**	**Baa2-**		

was £6.0 million, an effective tax rate of 56%, which included the substantively enacted tax charge at 19% in March 2020. Overall, our profit after tax was £3.6 million, 22% lower than prior year.

During the year I am pleased to see that we continued to invest in our capital programme, with capital expenditure of £26.5 million (2020: £35.6 million), although the COVID-19 lockdown did curtail some of our metering and mains replacement activity.

Cash and cash equivalents remained healthy at £25.6 million (2020: £25.6 million) and our net debt was £186.6 million (2020: £170.4 million), with regulatory gearing at 70.9% (2020: 64.9%), reflecting strong capital management despite the impact of low inflation on our RCV. In June 2020, we extended our revolving credit facility from £35.0 million to £50.0 million, with a maturity in 2024, and will complete our remaining AMP 7 debt raising to fund our capital programme activity in 2021, in line with our Business Plan.

Revenue

Our revenue is generated mainly by billing our household and non-household customers for their water supply. The prices that we charge our customers are determined by working with our regulator Ofwat on a five-year price review process, with 2020/21 being the first year of this new regulatory five-year period.

Total revenue has decreased by £4.0 million (6%) to £65.8 million (2020: £69.8 million) due primarily to a reduction in demand from businesses as a result of COVID-19 (down 32% to £7.4 million from £10.9 million in prior year). The drop in total revenue also included a reduction of £1.7 million (3%) to £52.6 million (2020: £54.3 million) in household water revenue. While there has been an overall increase in demand for household water as a result of lockdowns, this is only seen in measured revenue where customers are metered. Those without a meter are on a predetermined annual rate, so increased consumption has had no impact upon revenue. Under the regulatory model we will be able to recover shortfalls in this year's allowed wholesale revenue in 2022/23.

Financial review
Continued

Operating expenses and other operating income
Other operating income increased by £2.1 million to £2.2 million due to £1.6 million (2020: nil) of insurance receipts related to damage caused by a chemical spill in 2017 at Elmer Treatment Works, and profit on disposal of assets of £574k (2020: £119k).

Operating expenses increased £6.6 million (14%) to £54.3 million (2020: £47.8 million) which, combined with the fall in revenue, has resulted in the operating margin falling from 29% in 2019/20 to 17%.

The increase in operating expenses has primarily been driven by:

- Power costs increased £1.7 million (30%) to £7.4 million as a result of increased electricity costs to pump water around our network, driven by a change in customers' behaviours with more people at home
- Staff costs have increased £1.1 million (8%) to £14.4 million as wages increase in line with inflation, and due to increased resource levels to drive improved performance
- Due to operational events and lockdown restrictions on work, the profiling of our network maintenance work changed and as a result we increased the use of subcontractors with associated costs rising £2.1 million (63%) to £5.5 million to ensure that our essential network maintenance programme continued

The fall in operating margin also reflects a significantly increased expected credit loss charge in the year, which increased by £0.8 million to £2.6 million, where COVID-19 has adversely impacted our customers' ability to pay their bills.

Tax
In 2020/21 we paid £1.3 million (2020: £1.6 million) in corporation tax payments. Our corporation tax charge has decreased by £5.8 million (96%) to £0.2 million (2020: £6.0 million) primarily driven in the prior year by the change in tax rate that was substantively enacted in March 2021, increasing our deferred tax liability. In addition, the reduction in operating profit has further reduced our tax charge. In the financial year ended 31 March 2021 there has been no change in the UK corporation tax rate, nor any significant changes to any adjustments in arriving at taxable profits. However, we have noted in our statutory financial statements an estimated £13.1 million impact of future increases in tax rates from 19% to 25% substantively enacted in May 2021 and will be accounted for in the financial year ended 31 March 2022.

Dividends
Ordinary dividends paid fell by £1.2 million (20%) to £4.9 million and were paid from profits arising from the Company's regulated and non-regulated activities. The Board carefully considered the payment of these dividends in line with our dividend policy, taking into account service delivery for our customers. A full explanation of the Board's consideration of these dividend payments is provided in the Directors' report on page 103.

Capital expenditure
In the year, we commenced our AMP 7 capital programme with investment of £26.5 million (2020: £35.6 million). Our capital expenditure programme has been directly impacted by COVID-19 where activity had to be paused as our workforce was not able to access certain work sites – primarily related to our meter and mains replacement schemes.

We have continued to invest in the ongoing replacement of the pipes in our distribution network, investing £2.8 million this year.

However, we have continued to invest in the ongoing replacement of the pipes in our distribution network, investing £2.8 million (2020: £5.6 million) this year enabling targeted replacement based on age, condition and performance of our network. A further £2.3 million (2020: £6.3 million) was invested across our network primarily to improve our 'resilience mains' (to ensure water can be efficiently moved around our supply area now, and in the future). Finally, £0.8 million (2020: £1.1 million) was spent on extending our network into new housing developments.

We have also invested £11.4 million (2020: £13.7 million) on replacing and upgrading equipment at our treatment works, pumping stations, service reservoirs and other operational sites. This includes £3.6 million (2020: £9.4 million) invested in upgrading our Elmer Treatment Works. A further £2.1 million (2020: £2.6 million) was invested into our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.

Finally, £7.1 million (2020: £6.1 million) was invested in IT, including replacing our billing system, vehicles, laboratory, office equipment and support areas.

Pension scheme

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

There is a net pension scheme asset of £20.5 million, a decrease of £6.9 million (25%) (2020: £27.4 million) included in the balance sheet regarding the defined benefit scheme.

Cash and net debt

The Company held cash and cash equivalents at the year-end of £25.6 million (2020: £25.6 million). Due primarily to the impact of COVID-19, less cash from operating activities was generated this year (£14.9 million), a fall of £16.8 million (53%) compared to the prior year. This was partially offset by a spend of £25.9 million on the capital programme, a reduction of £9.5 million (27%) compared to the prior year due to the effect of COVID-19. The Company had cash receipts of £8.1m, a decrease of £2.7 million (25%) compared to the prior year from financing activities.

The Company's net debt at 31 March 2021 is £186.6 million, an increase of £16.2 million (10%) (2020: £170.4 million). This was primarily driven by the increase in the use of our revolving credit facility which was £44.0 million at the year end, an increase of £13.0 million (42%) (2020: £31.0 million), to fund our capital programme. The carrying value of our £100.0 million index linked bond increased by £3.2 million to £168.0 million (2020: £164.9 million). This increase was driven by an average RPI of 0.6% (2020: 4.1%) and interest charges of £4.9 million (2020: £4.8 million).

Financing ratios and credit rating

In accordance with our £100.0 million index linked bond we have restrictions on our level of gearing and interest cover ratios (ICR).

Our gearing, as measured by the bond agreement, is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. The RCV is indexed by movement in RPI and the linking of our principal debt instrument to the same inflation index provides an effective hedge against the impact of inflation. The ratio as defined by our bond was 78.2% (2020: 72.0%), within the 80% permitted by our covenants. The increase in borrowing is driven by our continued investment in the capital programme in accordance with our Business Plan.

Our interest cover for the year was 1.6x (2020: 2.1x), and our adjusted interest cover ratio (AICR) as defined in the bond agreement (including the indexation charge on the bond) was 1.0x (2020: 1.1x), again within the minimum levels required of 1.00. The reduction in cover is driven primarily by the fall in profits over the year.

We have continued to have constructive conversations with the credit rating agencies throughout the year, with our focus on financial and operational resilience during the COVID-19 pandemic allowing us to maintain our Moody's rating of Baa2 on negative outlook.

Managing risks

Managing risk is a key activity embedded in our culture

Impact			
High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

Principal and emerging risks

We continually monitor and mitigate the risks we face. In this section we put the spotlight on some of our principal and emerging risks and how we manage them.
Those summarised over the following pages have had greater focus and discussion at Board level this year, such as COVID-19. A full set of principal risks is provided on page 62.

Our formal risk register records and ranks risks according to the likelihood of occurrence and magnitude of impact, as well as keeping track of mitigating actions. A formal assessment of both the principal and emerging risks has been carried out, with the Audit Committee reviewing the register of risks twice a year and reporting back to the Board on new and emerging risks, changes in principal risks and the status of mitigating actions being taken to address such risks.

As new risks emerge, they are identified and assessed at an early stage so they can be included on the risk register with appropriate mitigation put in place. We monitor them closely, and some, in time, may become fully fledged principal risks or be incorporated into existing principal risks. Some may be superseded by other risks or cease to be a risk as the internal or external situation changes.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of our Company. Emerging risks are new risks, familiar risks in a new or unfamiliar context (re-emerging), trends, innovations and potential game changers.

Principal risk

Cyber attack

What is the risk?

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

Pledge	Risk after mitigating action

What does it mean for us?

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

What are we doing to manage the risk?

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

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

We have seen a rise in phishing scams over the last year 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 send 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. Separately, in the last year, the Board received cyber safety and awareness training and a full suite of online cyber awareness training is accessible for all employees.

Principal risk

Water supply failure

What is the risk?

That we experience an operational incident such as a water treatment works failure or major mains burst that results in serious disruption to water supplies.

Pledge	Risk after mitigating action

What does it mean for us?

If the main water supply to some areas that we serve is cut off for an extended period of time we would need to provide alternative supplies. In the event of an interruption to supplies we would need to ensure that priority customers such as hospitals, schools and customers with vulnerabilities are provided with adequate water supplies. Such an event could result in us failing to meet our performance commitment targets and receiving a financial penalty, as well as significant negative reputational impact.

What are we doing to manage the risk?

We have upgraded Elmer Treatment Works to improve the chemical dosing that is carried out at the site, so it is efficient and meets health and safety legislation. We also replaced equipment used to soften water at the site, something we are legally required to do. Together this investment will reduce the risk of the site being temporarily shut down and disrupting services to customers.

We also started work on a water mains renewal project in Redhill. The current water mains (some dating back to the 1890s) are beginning to reach their maximum operating capacity, due in part to the amount of new development in the town. We will be laying approximately 1.5 kilometres of new main across Redhill in a phased approach over the next two years.

A key focus of our work this year has been to start the roll-out of our intelligent water network. This uses Vodafone's next generation Narrowband Internet of Things (NB-IoT) 5G network which has deeper coverage underground and within buildings; and advanced loggers that leverage the benefits of the NB-IoT network by recording and providing more accurate, consistent and detailed data so we better understand how our network is performing. We then apply Aquasuite software, which has Artificial Intelligence (AI) and machine learning capability. It takes signals from the network sensors, performing in near real-time, predictive analysis to compare expected with actual performance. Together this combination of new technologies will revolutionise how we monitor, react and carry out maintenance on our network so we reduce the risk of bursts and supply failures.

Principal risk

Water supply shortage due to drought

What is the risk?

That we experience a period of low rainfall that results in a drought which means less water will be available to supply our customers.

Pledge	Risk after mitigating action

What does it mean for us?

If a drought occurs, we will need to change the way we operate some of our water sources and ask customers to use less water. As the drought develops and becomes more serious, we will need to restrict certain activities that use water. If a drought becomes severe, we will need to take emergency measures to ration supplies. This will have a significant impact on customers, businesses, the environment and the economy as well as damaging our reputation and that of the water industry.

What are we doing to manage the risk?

We are planning ahead to make sure we have resilient water supplies. Climate change is expected to change rainfall patterns affecting how much water is available from our water sources and when that water will be available. As a result, more serious and frequent droughts are expected in the future. We have been working with our neighbouring water companies as part of Water Resources South East (WRSE) to apply the most recent climate projections to our water resources, so we know which are most vulnerable to the impact of climate change.

Over the next year WRSE will develop a regional resilience plan that will forecast how much additional water is needed in the future to build resilience to drought and deliver environmental improvements. We are continuing to invest in new water mains so that we can serve all of our customers by more than one water treatment works by 2025, reducing the risk of supply loss.

It will plan for more severe drought events, those that would only be expected to occur once in every 500 years, in line with new Government policy. It will identify where new sources of water need to be developed, where new transfers should be constructed so water can be moved around and where we need to do more to reduce demand, so water supplies are more resilient in the future. The regional plan will inform our next Water Resources Management Plan which identifies the solutions we need to progress to secure water supplies.

We have updated our Drought Plan, which is the operational plan we follow when a drought occurs. This is subject to statutory consultation and will be finalised this year.

Managing risks

Continued

Principal risk	
COVID-19	
What is the risk and what does it mean for us?	**Bad debt increase**
The pandemic has had a far-reaching impact on water companies' operations and caused a number of the risks on our risk register to become a reality or increase in likelihood.	This risk has increased to high due to the financial impact the pandemic has had on some household customers and their ability to pay their water bills, resulting in an increase in bad debt. Likewise, retailers deferred payment of their wholesale charges in the year because so many businesses have been impacted, although all deferred balances have now been repaid to us.
Staff absence and wellbeing	**Penalties from non-delivery of Business Plan performance commitments**
The risk of staff absence has remained high throughout the year but we have seen a lower level of absenteeism than projected. We are mindful of the impact COVID-19 is having on the mental health and wellbeing of our employees, both now and as we start to re-mobilise in line with Government guidance.	We have been unable to make as much progress against some of our performance commitments in the first year of this Business Plan period as expected. This is because lockdowns and social distancing requirements have stopped us carrying out some non-essential activities. In particular, our work to reduce household consumption and tackle leakage have been impacted, as well as the next phase of our network resilience programme.
What are we doing to manage the risk?	
We have had an incident management team running throughout the pandemic with an executive director incident controller. This has been the primary mechanism for our decision-making in accordance with the latest Government advice. Key activity through the team has included establishing risk assessments for high-priority activity to ensure it is carried out in the safest way for employees and customers. Where possible, office-based staff have continued to work at home and the number of people entering offices and sites has been tightly controlled. We have provided operational employees with appropriate protective clothing and put in place policies to minimise the risk of transmission of the virus. We recognise the impact the pandemic has had on people's mental health and have increased the support we provide to employees, including training more mental health first aiders and providing free subscriptions to the Headspace mindfulness app. We are developing a comprehensive wellbeing strategy for the future, too.	We have put in place a permanent 'breathing space' scheme which offers customers a three-month break if they are struggling to pay their bills. Furthermore, over 20,000 customers are now on our Water Support Scheme that discounts bills by 50%, helping to make bills more affordable while maintaining cash flow into the business. All retailers are required to offer a repayment plan for business customers. We have been part of the industry group that is working with Ofwat and the market operator MOSL to support retailers while also ensuring wholesale charges are paid. Despite the pandemic we have managed to achieve our leakage reduction target for the year. We have also updated our policy for how we help customers with leaks on their supply pipe and internal pipework. We have proactively offered virtual home water efficiency checks to all our customers to help them reduce their water usage. We have also installed meters as part of a repatriation programme with Raven Housing Trust tenants to help them save water and money.

Emerging risks	
Climate change	**Governance**
We fail to adapt early enough to sustainability challenges, such as those indicated through Water UK's Public Interest Commitment, or there fails to be adequate funding to achieve our stretching environmental and climate-related targets.	We do not plan our longer term business-wide resilience work in the context of both Ofwat and the recent Department for Business, Energy & Industrial Strategy consultation on restoring trust in audit and corporate governance.

Board oversight of risk

Board

Audit Committee

Biannual review of Corporate Risk Register

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

Executive Leadership Team

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

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

Company policies

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

Quality and Environmental Management System and Procedures

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

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

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

Values

Principal and emerging risks

Managing risk is a key activity embedded in our culture

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

Risk	Pledge	Effect	Mitigations	Risk after mitigating action	Additional COVID-19 impact
Business systems					
Cyber attack		Interference with operational controls Loss of personal data	– Multiple layer security – Controlled access to Company systems – Participation in expert forums – Regular testing and enhancement of security measures – Increased employee awareness training		Increased risk of fraudulent activity More employees working remotely
Non-compliance with legal obligations		Failures lead to enforcement action and reputational damage	– Improved employee training – Formal processes for compliance with market codes – Increased dedicated resources – Independent assurance		N/A
Failure of billing system		Temporary loss of revenue Poor customer experience	– Current billing system is being replaced – Detailed controls in place for transition – Disaster recovery arrangements tested annually – Adequate liquidity for temporary loss of billing capability		Delay in implementation of new billing system
Inability to adapt to impact of climate change		Failure to meet regulatory expectations Environmental impact affecting water resources Financial impact of inadequate investment	– Specific environmental performance commitments in our business plan – Creation of a new Environmental Scrutiny Panel – Dedicated Enery & Carbon Manager and Energy Strategy Committee – Board leadership through a new environmental, social and governance strategy (ESG)		N/A
Physical assets					
Water supply shortage due to drought		Customer demand not met	– Detailed water resource management planning including at a regional level – Updated drought plan out for consultation – Maintaining ability to treat peak demand at treatment works – Resilience and flexibility of network – Roll-out of universal metering programme – Water efficiency programme		Increased demand with more people at home Unable to fit meters inside homes during full lockdowns
Large scale water supply or quality failure, including by deliberate acts		Disruption to supplies Failure of statutory duty	– Increase in prosecutions for illegal connections – 24/7 manned Control Room and standby arrangements – Detailed control procedures and automated treatment processes – Security measures at all sites – Asset flood protection – Extensive sampling regime & in-house laboratory – Targeted asset investment – Increase in number of customers who can be supplied by more than one treatment works		Employee absence levels have been manageable and any small scale incidents have been responded to

Impact

High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

Pledges

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

Risk	Pledge	Effect	Mitigations	Risk after mitigating actions	Additional COVID-19 impact
People					
Absence of large numbers of staff		Failure of normal business operations	– Health benefits including flu injections offered to employees – Staff engagement and consultation to avoid industrial action – Focus on health, safety and wellbing of staff – Cross-training and succession planning – Annual disaster recovery exercises – Industry mutual aid agreements		Absence levels have been manageable
Failure to recruit, retain and develop high quality staff		Degradation of service to customers and business success	– Competitive employment conditions and employee benefits – Investors in People silver recognition – Performance-related pay for senior employees – Use of expert recruitment partners – Staff recognition schemes – Training and development – Annual employee engagement survey		Staff turnover remains low but potential delays to recruitment Increase in expectation for flexible working arrangements
Financial					
Penalties for not delivering regulatory performance targets		Lower revenue recovered from customers Reputational damage including the impacts of not achieving our C-MeX and D-MeX targets	– Improvement and recovery plans in place. This includes improving services to all our customers, including developers, through targeted action plans and supplemented by system improvements through the implementation of a new billing system – Dialogue with regulators including representations on specific impacts of the pandemic		The pandemic has affected performance in certain key areas such as reducing leakage and consumption, identifying properties that are connected to our network but not charged and adequately supporting developers when the construction industry re-started
Resilient financing		Insufficient funding to fulfil duties Failure to meet efficiency targets Increase in borrowing costs breaches financial covenants	– Updated totex plan in place – Reviewing optimal financial arrangements to ensure gearing remains at an acceptable regulatory level – Credit agency liaison – Detailed treasury controls at key measurement points – Independent audit – Adequate reserves in place		Reduction in number of customers able to pay their bill impacting our liquidity Financial market instability
Customer participation					
Increase in bad debt		Loss of revenue, reducing liquidity with increased reliance on debt	– Variety of bill payment support options offered – Regular reviews of cash collection and debtor rates – Recovery plan in place – Payment of deferred wholesale charges from retailers		Increase in customers experiencing financial hardship Closure of many businesses during lockdowns Additional bill payment holiday options offered

The Strategic Report was approved by the Board of Directors on 2 July 2021 and signed on its behalf by Paul Kerr, Chief Financial Officer

UK Corporate Governance Code Index table and compliance statement

UK Corporate Governance Code 2018 – Principles and how we address them

Requirement	Summary	Where to find further information
Board leadership and Company purpose	The role of the Board is to provide leadership and to review the overall purpose and strategic development of the Company. The purpose of the Company is to supply our customers with the highest-quality water all day, every day in a reliable and safe way, and to do so in a manner that reflects our long-term commitment to serve our local community and environment. As a Board we strive to ensure that the Company's purpose is embedded in every decision that we make, as well as the decisions and actions of employees.	Read more on pages 66, 67 and 69
Division of responsibilities	The division of responsibilities across the Board is a key factor in the ability of the Board to function effectively and efficiently throughout the year. Clarity of such roles and responsibilities, and ensuring the specific duties for Board members are defined, and such members are held accountable in their areas of responsibility, is of prime importance to the Board. In particular, the Board ensures that there is clear division of responsibilities between the Chairman and Chief Executive Officer, and the roles of the Chief Financial Officer & Company Secretary, together with the senior independent non-executive director, are well defined.	Read more on page 71
Composition, succession and evaluation	The Board will only function effectively if it can benefit from the varied skills and experience of its independent non-executive directors and Chairman. In addition, through the Nomination Committee, the Board has a thorough and considered approach to succession planning within the organisation, both at Board and senior management levels. Also, it is vital to continuous improvement that the Board members are evaluated on an annual basis, and that the overall effectiveness of the Board is also regularly evaluated.	Read more on pages 71, 72 and 74
Audit, risk and internal control	The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. This is vital for the proper functioning of the Company, as this allows the management of the risk of failure of the Company's business objectives. Such a system ensures that the Company has in place effective control environment, risk management and information systems, clearly defined control procedures and a regularly reviewed monitoring system.	Read more on pages 74 to 76
Remuneration	The Remuneration Committee of the Board is key for providing a remuneration framework for the Board members and senior management team, including the design of targets on bonus and long-term incentive plans, and their ongoing evaluation. In particular, the Committee has focused on implementation of the recently updated executive remuneration policy, strengthening the link between executive pay and delivery for customers, in both the areas of annual bonus and long-term incentive plans.	Read more on pages 88 to 101

Compliance statement

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

- Board composition: Provision 11 of the Code states that at least half the Board, excluding the Chair, be independent non-executive directors. We have three independent non-executive directors and comply with the Ofwat objective in this area, as explained on page 71
- Chair's independence: Provision 9 of the Code states that the Chair should be independent at the time of appointment. The circumstances around the appointment of the Chair are explained on pages 68 to 71, along with the succession plan now in place for the next Board Chair
- Board evaluation: Provision 21 of the Code states that there should be an annual evaluation of the performance of the Board. As explained on page 74, there was a Board evaluation process during the 2020/21 financial year and this is carried out only every second year, which is appropriate for a company of our size
- Provision 38 of the Code states that the pension contribution rates for executive directors should be aligned with those available to the workforce. The policy for incumbent directors and any new appointments is set out on pages 91 to 93 in the remuneration report.

Chairman's introduction

Introduction to governance

Jeremy Pelczer
Chairman

We have spent considerable time as a Board this year focusing on ensuring the Company's corporate governance framework and activities have supported the Company through the ongoing COVID-19 pandemic. Such support has included ensuring the structure of the Board and the contributions from all Board members have allowed the focus on key matters such as health, safety and wellbeing and financial resilience during the pandemic. I am pleased to say the breadth of experience of the Board, the commitment of its members and the close relationship of the Board with senior management have meant the right level of support has been provided to management, employees and ultimately our customers during this difficult year.

The Board has also continued to meet the requirements of Ofwat's 2019 objectives on leadership, transparency and governance. These objectives are incorporated into our licence and the Board considers we have complied with all such objectives as detailed in the annual statement provided in our separate Annual Performance Report. The Governance Committee established by the Board last year continues to operate well, taking into account all guidance from Ofwat and the Financial Reporting Council (FRC). I am pleased to note the Committee continues to work with management on the publication of the 'Keeping it Clear' document published in December 2020, which provides a clear and straightforward view on how the Company is financed and governed, together with providing clear insights on dividends and executive pay. Board minutes continue to be published on our website.

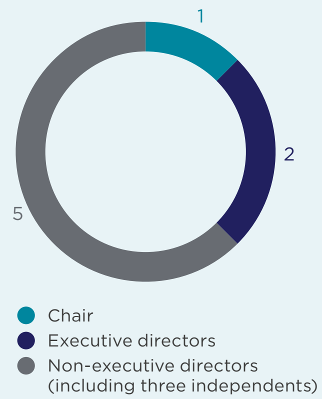
In addition, the introduction of a formal Health, Safety and Wellbeing Committee, chaired by Dave Shemmans, one of our independent non-executive directors, has been timely in the light of the pandemic, and I am pleased to note the recent actions of this Committee to address wellbeing matters for all our employees during such difficult times.

The Board is only able to address such full and challenging agendas through the dedication and wide experience that Board members bring to our discussions. I would like once again to thank my fellow directors for their continued strong commitment to maintaining the highest standards appropriate to the nature and ownership of the business.

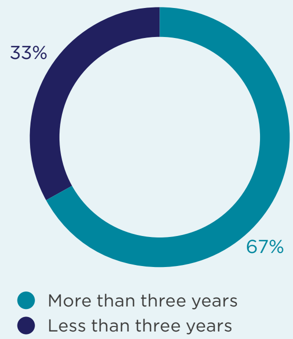
Jeremy Pelczer
Chairman

2 July 2021

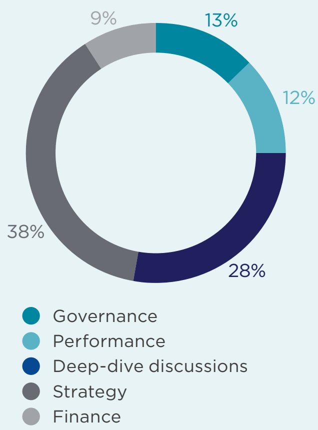
Board composition



Non-executive director tenure



How the Board spent its time



The leadership team

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

Chairman

Jeremy Pelczer
Chairman, non-executive

Committee membership:
- Chairman of Nomination Committee
- Member of Governance Committee

Skills and experience:
Jeremy was elected Chairman in April 2013. He has a financial background and is a qualified accountant. He moved into the water industry in 1996 and was CEO and President of American Water from February 2004 until December 2005. He was Chief Executive of Thames Water from November 2005 until its sale was completed in December 2006. From 2007 to 2013 Jeremy was Chair of WaterAid UK and from 2010 to 2016 he was Chair of WaterAid International. Prior to his appointment as Chairman of the Company he held the position of non-executive director at South Staffordshire Water plc since 2010.

Executive directors

Ian Cain
Chief Executive Officer

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

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

Paul Kerr
Chief Financial Officer & Company Secretary

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

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

Independent non-executive directors

Murray Legg
Senior non-executive director

Committee membership:
- Chairman of Audit Committee
- Chairman of Governance Committee
- Chairman of Energy Strategy Committee
- Member of Remuneration Committee
- Member of Nomination Committee

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

Dave Shemmans
Non-executive director

Committee membership:
- Chairman of Remuneration Committee
- Chairman of Health, Safety and Wellbeing Committee
- Member of Audit Committee
- Member of Nomination Committee
- Member of Governance Committee

Skills and experience:
Dave joined Ricardo, a global engineering consultancy, in 1999. Prior to joining Ricardo he was operations director and co-founder of Wavedriver Ltd (a subsidiary of PowerGen plc). He has also gained consulting and management experience in both listed and private companies. Dave holds a degree in electronics and is a graduate of the Harvard Business School. He joined the Board on 1 September 2014.

Jon Woods
Non-executive director

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

Skills and experience:
Jon has over 20 years' experience in the food and drinks sector gained at Cadbury Schweppes, AB Inbev and now Coca-Cola. Jon joined the Board on 1 March 2016.

Shareholder-nominated non-executive directors

Seiji Kitajima
Non-executive director

Committee membership:
- Member of Governance Committee

Skills and experience:
Seiji joined the Board on 6 February 2019. He joined Sumitomo Corporation in 1992 and has held positions in water, telecoms, renewable energy and transport teams. He stepped down from the Board on 1 June 2021.

Ken Kageyama
Non-executive director

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

For more detail on Ken's appointment see page 71.

Kenji Oida
Non-executive director

Committee membership:
- Member of Energy Strategy Committee

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

Corporate governance report

The Board's Code on principles of good governance

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

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

1. Acting as if it is a separate plc

The Board will govern the Company in accordance with the standards applicable to an independent company listed in the UK, focusing exclusively upon the long-term interests of the Company. Subsequent principles in this Code define what this overall principle means in particular areas.

The Board considers it complies fully with the principle of governing the Company in accordance with the standards applicable to an independent company premium listed in the UK.

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

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

2. Transparency

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

The Company has made disclosures in this Annual Report which meet the requirements of the Code. The terms of reference of its Board committees are published on the Company's website. The relationship of the Company with its associated companies is set out on page 13.

3. Board and senior management skills

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

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

All new directors receive appropriate induction. The Board formally reviews its performance every two years, and in the current year has utilised an external facilitator to enable this review. The progress on the actions arising from this year's most recent Board effectiveness review is provided on page 75.

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

4. Independent representation

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

The Board has three non-executive directors who are independent of management and shareholders, one of whom has been appointed as the senior independent non-executive director able to act inter alia as a channel for Board communication with regulators. The Board also comprises two executive directors, two shareholder representatives and a chairman who had a connection with a shareholder prior to his appointment (the Board has continued to find him independent of character). Independent non-executive directors continue to form the largest single group on the Board.

5. Board committees

The Board will maintain as a minimum Nomination, Audit and Remuneration committees on which independent non-executive directors will form a majority, and also has Energy, Pensions, Governance and Financing committees which have independent non-executive director attendance and chairs. The Board also created a formal Health, Safety and Wellbeing Committee in 2020/21, building on the focus by management on health and safety matters in recent years.

The Company's ultimate holding company in the UK also applies a code on governance which is published on page 79.

The Board considers it has fully complied with the main principles of the Code and its application. Any reasons for not applying specific provisions of the Code are described on page 64.

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

The Board continues to be heavily involved in ensuring the Company adheres to the 2019 BLTG objectives from Ofwat. This includes building on the substantial work performed in previous years to enhance the internal and external transparency of Board matters and key decisions throughout the organisation, and takes into account the recent February 2021 report from Ofwat in this area.
The Board's assessment of the performance against these Ofwat leadership objectives is provided in the Annual Performance Report 2021.

Role of the Board

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

The matters reserved for Board approval are:

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

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

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

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

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

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

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

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

Corporate governance report
Continued

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

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

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

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

No matters are reserved solely for the shareholders, and none of the matters above are reserved to any intermediate holding company. Any matters which are properly of concern for shareholders are openly discussed with the Chair of the Board and the full Board. In 2020/21, this has included shareholders' views on customer health and safety and the operational and financial performance of the Company during the COVID-19 pandemic.

Equality, Diversity and Inclusion policy

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

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

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

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

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

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

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

Gender split by role

	Female	Male	Total
Director		2	**2**
Employee	126	196	**322**
Non-executive director (NED)		4	**4**
Senior manager	9	11	**20**
Total	**135**	**213**	**348**

Roles and responsibilities

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

Chairman – Jeremy Pelczer is responsible for:

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

Chief Executive Officer – Ian Cain is responsible for:

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

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

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

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

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

Composition of the Board

The Board benefits from the varied skills and experience of its independent non-executive directors and Chairman.

With respect to Board succession, Dave Shemmans' third and final three-year term commenced 31 August 2020 as an independent non-executive director of the Board. In addition, as part of an expansion of the formal Board committees, the Board appointed Dave to chair the Health, Safety and Wellbeing Committee in the year and he continues in his role as the non-executive director designated to liaise with our workforce.

The Committee also approved and recommended to the Board that Murray Legg serve a third and final three-year term effective from 24 March 2021 to September 2024 as the senior independent non-executive director. During the year, Murray was also appointed as Chair of the Audit Committee of East Surrey Holdings, the parent company of SES Water. The Board does not consider this additional role has any implications for Murray's role as senior Independent non-executive director of SES Water.

The Committee is also pleased to have approved and recommended to the Board that Jon Woods serve a third and final term from April 2022 to March 2025 as non-executive director. This new term will coincide with Jon's appointment as Chair of the Remuneration Committee, effective from 1 April 2022.

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

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

The Committee has progressed the succession plans for the Chair of the Company, given that Jeremy Pelczer's third and final term as Chairman will end in March 2022. The Board has determined to appoint Dave Shemmans as Chair of the Company with effect from 1 April 2022. Dave's appointment will run until completion of the PR24 process which is anticipated, for the purpose of this appointment, to be in December 2024. Dave's total period as a director of the Company would therefore be ten years and four months, compared to the normal limit of nine years.
It is the Board's view that Dave will be regarded as an independent non-executive director upon his appointment as Chair.

Corporate governance report

Continued

It is also proposed Dave will succeed Jeremy as Chair of East Surrey Holdings, the parent company of SES Water and of various non-regulated companies including SES Water Services. The Board does not consider this additional role has any implications for Dave being regarded as an Independent Chair of the SES Water Board.

Murray Legg, the senior independent director on the Board, has independently confirmed all Board members support the above appointment.

The Committee considered the above appointments in the light of the current lack of diversity on the Company's Board and committees. The Committee is cognisant that such appointments do not address the current lack of diversity in such forums, although our new executive team has three females (out of the seven-person team). The Committee will continue to focus on this imbalance when considering future candidates.

The Company has a policy that a register of directors' interests is maintained and updated on a continuous basis by the Company Secretary. This register is presented and reviewed at the start of each Board meeting to ensure any conflicts of interest are readily identified and addressed. The proactive consideration of this register and the emphasis placed by the Board Chair on the accuracy and consideration by all Board members of their external interests, means any potential conflicts can be addressed in advance if needed. In 2020/21, no such conflicts of interest were identified.

Independent non-executive directors

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

Significant commitments of the directors held outside of the Company are disclosed prior to appointment and any changes are disclosed over the duration of the appointment. Current appointments are disclosed on pages 66 and 67. All directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and the position in practice is reviewed as part of the annual review of Board effectiveness.

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

During 2020/21, examples of where the Chairman exhibited this independence of action and decision-making included the manner in which he handled the decision to defer ordinary dividends to the shareholders during the year due to the uncertainty presented by COVID-19, and his utilisation of the senior independent non-executive director to conduct an objective process for determining the next Chair of the Board.

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

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

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

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

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

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

How does the Board engage with stakeholders?

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

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

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

Engagement in action – our response to the COVID-19 pandemic

There have been various examples of this level of engagement with our stakeholders throughout the year by the Board, despite the restrictions imposed through the COVID-19 pandemic. This has included engagement with industry and regulator representatives (such as the DWI and WRSE) at Board meetings, participation by our non-executives at industry forums and the use of Board deep-dives and training sessions to discuss with experts in areas such as cyber security and competition law.

However, the best example of such engagement (in a manner that was wholly consistent with the Companies Act requirements) was the work performed by the Board in light of the challenges presented by the COVID-19 pandemic. This work included:

- That management's plans to deal with the COVID-19 pandemic were designed to take into account the long-term impact to the Company of the pandemic for our customers, employees and other stakeholders, ensuring that any immediate decisions to deal with the crisis – such as ensuring financial resilience through extending credit facilities or deferring capital projects due to accessibility issues – struck the right balance between short-term solutions for our customers and long-term concerns, such as overall business resilience
- That our employees were fully engaged on the plans to deal with the pandemic, with senior management specifically meeting three times a week on COVID-19 matters (led by the wholesale operations director as the incident controller), being followed by individual team debriefs by each senior manager. This was complemented by virtual sessions from the directors (such as the monthly open forum led by the Group CFO) which addressed any COVID-19-related questions from employees. This level of employee engagement was discussed and reviewed at separate COVID-19 Board meetings in the year, and was supplemented by an up-to-date FAQ document available to all employees
- That the plans to address COVID-19 took into consideration the concerns and viewpoints of our customers and other stakeholders, ensuring that priorities and focal matters for our most vulnerable customers were considered as part of our actions during the pandemic. The independent Customer Scrutiny Panel (CSP) was also kept apprised of our COVID-19 plans during the year, ensuring such plans were always customer-focused
- That our actions in response to the COVID-19 crisis always took into account the impact of the Company's operations on the community and environment. For example, the decision to pause our education programme in light of the pandemic, while a difficult decision from the Board's standpoint given the recent completion of our new education centre at Bough Beech, was the appropriate decision in light of the associated wellbeing concerns. The Environmental Scrutiny Panel, similar to the CSP above, was also kept informed during the year of such actions, ensuring that the appropriate steps were taken for protection of the environment and our local community during the crisis.

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

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

Engagement in action – our workforce

Our executive directors have significant daily interaction with our workforce from the nature of their roles in the Company, managed during the pandemic via virtual meetings to ensure continuity of communications. However, the non-executive directors regularly engage directly with our employees. While such interaction, via visits to our treatment sites, was curtailed in the prior year due to the pandemic, regular presentations virtually at our Board meetings from members of the workforce have continued.

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

From the JNCC discussions, Dave has continued to provide the Board with a view – separate from executive management – of the culture of the business and workforce, the areas of concern that management is working to address, and the successes and morale of the workforce during the year. His work has allowed all the Board to ensure that due regard has been given to employee interests in the key decisions taken during the year by the Board, particularly during the COVID-19 pandemic. Such decisions in the year have included development of a new electric fleet policy for the Company, together with ensuring alignment of the workforce with management's plans in the light of the COVID-19 pandemic. While certain of these decisions may not be materially strategic to the Company, the use of a workforce designated non-executive director has enhanced the understanding and decision-making of the Board on employee matters. Dave's work with the JNCC has also allowed the Board to more closely monitor and assess the culture of the Company, providing the Board with assurance in particular matters such as health and safety, the importance of operational and regulatory compliance and individual wellbeing continues to be a distinct part of the Company's culture.

Corporate governance report

Continued

In addition, another significant part of the Board's engagement with the workforce in 2020/21 has been around the enhancement of the Company's purpose. As noted in the Annual Board Statement, in the separate Annual Performance Report, the Company's purpose is to supply our customers with the highest-quality water all day, every day, in a reliable and safe way, and do so in a manner that reflects our long-term commitment to serve our local community environment. As a Board we have maintained our commitment to this throughout the pandemic.

However, we recognise that purpose must adapt to meet the evolving needs of our customers, communities, employees and wider stakeholder groups now and into the future. With the Board's direction, the Company has therefore taken this opportunity to undertake a review of its existing purpose to ensure that we remain a force for good as well as a good business long into the future. Therefore, the Board has overseen a collaborative process engaging members of the workforce to participate in the enhancement of the Company's purpose through a series of workshops and focus groups. This work with our employees will continue into the coming year and will set the guidelines for the investments and decisions that we make for the long term.

Evaluation of Board effectiveness

The most recent review of Board effectiveness was facilitated externally in 2020/21 by Independent Audit Ltd during April and May 2021, with the results presented to and discussed at the Board meeting in June 2021. The exercise was conducted using a self-assessment questionnaire developed by Independent Audit Ltd with input from the Chairman and Company Secretary, together with interviews with the Chairman, CEO, senior independent non-executive director and CFO. The questionnaire was completed by each member of the Board, together with other members of the executive team/senior management who regularly attend Board meetings. The feedback provided by the interviews and completed questionnaires was then collated and analysed by Independent Audit Ltd and summarised in a report presented by them to the Board. This report reflected the key feedback themes and included suggested actions for consideration by the Board, which are documented overleaf. Independent Audit Ltd has no other connection with SES Water.

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

All actions from previous effectiveness reviews, of the Board have been completed as documented in the 2019/20 Annual Report.

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

Training and development

Directors are primarily responsible for their personal development and for compliance, where appropriate, with the continuing professional development requirements of their respective professions. The Board also receives regular updates on legislative, regulatory and other governance developments, including briefings from external specialists as appropriate. Such updates have been supplemented in 2020/21 through a formal Board training schedule, which has included access to various online training modules, together with specific training on cyber security and Competition Act matters. In addition, the Board periodically visits the Company's water treatment works and enquires into operational policies, practices and procedures, although this has been curtailed to a degree due to the restrictions imposed by COVID-19.

Board performance

The Board met six times during 2020/21 to conduct regular Board business, in addition to two separate meetings focused on COVID-19 and three other meetings to deep-dive on specific topics, including: COVID-19, water resources plans and PR19 lessons learned. In 2021/22 it has also had meetings to consider leakage and updated business priorities for the remainder of this AMP. Committees met as required and considered regular and ad-hoc business. Attendance at meetings by directors is summarised on page 75.

The Board has also established ad-hoc committees to consider key risk items, including the strategy for power purchases (an Energy Strategy Committee), for managing the Company's exposure to risks associated with the defined benefit pension scheme (a Pensions Risk Management Committee), for considering the way in which the Company should be financed in the future (a Financing Committee) and a Governance Committee to consider both recent requirements from Ofwat and the FRC in the area of BLTG. In addition, a Health, Safety and Wellbeing Committee was formed in 2020/21 to provide further focus on these matters, especially in the light of wellbeing issues arising from the COVID-19 pandemic. These committees are chaired by the senior independent non-executive director and comprise non-executive and executive directors with such other senior executives and external advisors as are appropriate for the matters to be considered.

Finally, the Board established an Environmental Scrutiny Panel, independently chaired, to constructively challenge the Company on its environmental ambitions and performance. The first meeting of this panel was held on 27 April 2020.

System of internal control

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

Board effectiveness action points from 2020/21 review	Board response
Set clear environmental, social and governance (ESG) targets and objectives which reflect the Company's values.	With the development of the ESG framework as described on page 42 of this Annual Report, the Board will align the embedded Company values to the ESG goals.
Ensure there is a clear framework for agreeing targets for values and culture and embedding in the business.	Building on the work on company purpose and values performed in the last year, the Board will continue to drive - with the support of management - the monitoring and review of culture within the business, recommending appropriate actions where needed.
Understand further the strategic opportunities and risks presented through new technologies.	Digital 'road maps' are under development by the Chief Information Officer, which will allow for Board focus and discussion on such technological risks and opportunities.
Continue to expand the Board's discussion of principal risks to ensure useful and relevant to the Company's decision-making.	The Board will enhance its agendas further to ensure alignment to principal risks and relate periodic discussions on risk to the results of the most recent risk register review.
Expand the Board's consideration of how emerging leading practice in the water sector and other industries could enhance the Company's strategy.	The Board will expand the quality and quantity of data it receives with relation to market 'benchmarking', allowing both the Board and senior management to improve decision-making.

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Jeremy Pelczer	11/11	n/a	n/a	4/4
Murray Legg	11/11	4/4	2/2	4/4
Dave Shemmans	11/11	3/4	2/2	3/4
Jon Woods	11/11	4/4	2/2	4/4
Kenji Oida	11/11	n/a	n/a	n/a
Seiji Kitajima	11/11	n/a	n/a	n/a
Ian Cain	11/11	n/a	n/a	4/4
Paul Kerr	11/11	n/a	n/a	n/a

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

- There is an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Company
- The systems have been in place for 2020/21 and up to date of approval of the Annual Report and accounts
- The systems are regularly reviewed by the Board
- The systems meet the FRC 2014 guidance on these matters

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

1. Control environment

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

Corporate governance report
Continued

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

An overview of key business risks and the mitigations the Company has established are presented on pages 58 to 63.

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

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

5. Monitoring system
The Company's internal financial, operational and compliance control systems have been reviewed in the context of evolving legal and regulatory requirements and additional assurance procedures have been agreed and implemented. The Company consulted on a draft targeted assurance plan for 2020/21 and has published its final assurance plan on its website. The Audit Committee has reviewed the application of this targeted assurance plan and has reported its conclusions to the Board. The Committee has also considered the need for a dedicated internal audit function in the light of the development of the Quality and Compliance function since its establishment in 2014. Having agreed a programme of internal audit work to be undertaken by a combination of internal and external resources, the Committee has concluded that a separate internal audit function continues not to be needed at the present time. The monitoring and control arrangements operated in the year are considered good based on the quality of insights, relevant actions and overall internal assurance received from the above audit programme, with enhancements planned to increase the capability of internal audit to review financial controls within the business. The external auditor has been informed of the Company's internal audit programme and tailored its external audit work as needed.

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

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

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

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

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

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

The Company's effective cash tax rate on reported profits will vary from year to year – and from the standard rate of UK corporation tax – due to the availability of tax deductions for capital investment and pension contributions.

These deductions arise from the tax incentives for capital investment and employee retirement provisions that have been maintained by the Government explicitly to encourage such investment. The Company considers that utilising such incentives is entirely consistent with being a well-run and respected business.

Tax risks are encompassed within the Company's general risk management framework (described on pages 58 to 63). In any particular year, the principal tax risks arise from changes in legislation or the interpretation of taxation law in practice, leading to higher taxation liabilities than have been allowed for in prices charged to customers.

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

Fair, balanced and understandable assessment

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

Going concern

The Company's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic report on pages 38 to 41. The financial position of the Company is set out on pages 54 to 57. Note 2 of the financial statements on pages 118 to 119 sets out the Company's position in relation to risks associated with financial instruments, credit and interest rates and describes the Company's risk mitigation measures. The going concern basis has been adopted for preparing the financial statements.

The directors have considered the financial position of the Company and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of this Annual Report. The directors' conclusions on the going concern basis include the consideration of amounts available under the Company's committed revolving credit facility of £50m using mitigating actions as needed should any plausible downsides occur.

No repayments of the Company's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non-household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of COVID-19 on customers' ability to pay, were assessed against the long-dated bond financial covenants. The Company complied with such covenants under base case and downside scenarios, using a number of mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

Long-term viability statement

The directors have assessed the viability of the Company to March 2031, taking account of the Company's current position, performance and the potential impact of the principal risks documented in the Strategic report. Based on this assessment, the directors have a reasonable expectation that the Company will be able to fulfil its obligations, including meeting its liabilities as they fall due, over the period to March 2031.

In making this statement, the directors have considered the resilience of the Company's financial position based on its projections as incorporated in the PR19 Business Plan (updated through the acceptance of Ofwat's Final Determination in February 2020 and taking into account the Company's latest 2020/21 performance).

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

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

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

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

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

A water quality failure:

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

Corporate governance report

Continued

Loss of high-quality staff:

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

Operating expenditure underperformance:

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

Failure of our AMP 7 efficiency programme:

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

Additional climate-related costs:

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

Additional pension costs on the defined benefit scheme:

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

Redemption costs associated with our long-term bond:

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

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

The directors have determined that the period to March 2031 is an appropriate period over which to provide this viability statement as it is consistent with our recent Business Plan submissions, and takes into account the Company's current liquidity position and committed borrowing facilities, its potential mitigating actions including increasing both borrowings and equity, in addition to suspension of dividends. The directors have also considered the Company's ability to access current and future sources of debt funding, based on recent transactions, current arrangements and discussions with financial institutions.

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

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

The underlying assumptions within this long-term viability statement are consistent with those assumptions utilised in our PR19 Business Plan and Ofwat's Final Determination, updated for the Company's latest 2020/21 performance. Such assumptions, together with data input, were subject to our well-established internal procedures for managing data quality and assurance. In addition, we used a range of suitably qualified external assurance providers to give additional comfort to the data and underlying assumptions which were incorporated into our Business Plan, and hence this long-term viability statement. In particular, a leading audit practice confirmed the reasonableness of the key assumptions made in preparing the inputs into the data tables that underpin our Business Plan and therefore this long-term viability statement. The directors reviewed the assurance activities as part of their approval and concluded that appropriate assurance activities had been undertaken that were consistent with SES Water's latest Company Monitoring Framework assessment.

Based on the above scenarios and assessment criteria, we remain financially resilient (and have sufficient headroom to raise additional debt within our covenants) to address all scenarios with the exception of the extreme scenarios (combined scenarios and certain extreme specific scenarios, such as a 10% totex overspend). In the latter scenarios, maintaining financial resilience would be achieved through a combination of suspending divided payments and direct equity injections. Given that this additional headroom might be needed because the probability of more than one event or combination of events occurring increases with the long time horizon being considered, the directors have a signed undertaking from our two main shareholders to provide financial support in the scenarios described to ensure that we are able to continue financing and providing services to customers. The directors have also drawn comfort from the longer-term protections which exist under the regulatory regime which enables companies to seek to re-open price determinations in circumstances having a substantial adverse effect upon a Company's ability to continue financing its functions and which places a duty of Ofwat to ensure that efficient water supply companies are able to finance their functions.

SUMISHO OSAKA GAS WATER UK LTD (SOWUK)

Code of corporate governance principles

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

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

1. We shall ensure that our holding structure is transparent and explained in a clear way. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year.

2. We shall provide clear information on our debt and equity structures. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year.

3. We shall be transparent in declaring the interests of our directors. We shall demonstrate this transparency by having a clear internal process for disclosure and publishing a list of such interests in the Annual Report of the regulated company each year. We shall disclose and explain any matters at the regulated company level which are reserved for our Board in the Annual Report of the regulated company each year.

4. In carrying out our activities we shall ensure that we fully understand and take into account, particularly at Board level, the duties and obligations of the regulated company contained within statute and its Licence. In particular, we shall refrain from any action which would cause the regulated company to be in breach of any of its obligations.

5. In order that the regulated company may assess any potential impact on its activities and its exposure to risk, we shall provide the regulated company with any information that it reasonably requests about the activities of our wider group. Further, we shall proactively disclose to the regulated Company any issues or information that may have a material impact on its activities.

6. We recognise the importance of supporting the regulated Company in a way that allows it to run its business as if such Company were an independent public-listed Company.

7. We recognise the importance of supporting the regulated Company in order that it can make strategic and sustainable decisions in the interests of the regulated business for the long term.

8. We shall regularly review this Code to ensure that it meets the standards of current best practice. Any changes to this Code shall be reported in the succeeding Annual Report of the regulated company.

Approved by the Board of Directors on 3 July 2020.

Statement by the Chairman of the Nomination Committee

Jeremy Pelczer
Chairman of the
Nomination Committee

A summary of the Committee's activities in the 2020/21 reporting year.

Following the appointment of Ian Cain in February 2020 as the Company's new Chief Executive Officer, the Board membership in 2020/21 has remained stable with no changes during the period. The Committee's focus has been on succession planning at both a Board and executive level, together with ensuring the continued development of talent and effective senior management across the business.

In particular, the Committee was pleased to note the enhancement of Ian's executive management team in the year with the appointment of John Gilbert as Chief Information Officer and Kate Thornton as Chief Customer Officer. Both bring a wealth of experience in the digital and customer service areas respectively, which has had a positive impact on the capabilities and strategic outlook of the executive management team.

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

The Committee is pleased to note the appointment of Ken Kageyama as one of the Company's shareholder-nominated non-executive directors, replacing Seiji Kitajima, effective from 1 June 2021. Ken brings with him experience of both the water and energy markets, having been with Sumitomo Corporation since 1991. I would like to take this opportunity to personally thank Seiji for his considerable contribution to the Board and the Company during his tenure.

I am also pleased to note the appointment of Steve Crabb as Chair of the SES Water Customer Scrutiny Panel, replacing Graham Hanson, effective from April 2021. Steve brings with him a history of customer service and advocacy, which will allow the optimal balance to be struck between support and challenge as the Company continues to focus on transforming the experience it offers customers and engages them in its future plans, ahead of PR24. I and my fellow Committee members would like to thank Graham for his significant work in chairing this panel, in particular through the PR19 process.

In addition, as part of an expansion of our formal committees of the Board, the Board appointed Dave Shemmans to chair our Health, Safety and Wellbeing Committee in the year.

The Committee also approved and recommended to the Board that Murray Legg serve a third and final three-year term as the senior independent non-executive director, effective from 24 March 2021. It also approved and recommended that Jon Woods serve a third and final term from April 2022 to March 2025 as non-executive director. This new term will coincide with Jon's appointment as Chair of the Remuneration Committee, effective from 1 April 2022.

Finally, the Committee has progressed with the succession plan for a new Chair of the Company, given that my third and final term as Chairman will end in March 2022. The Board has determined to appoint Dave Shemmans as the new Chair of the Company with effect from 1 April 2022, until 31 December 2024. Personally, I am delighted that Dave's significant knowledge and experience of the Company and sector will continue to benefit the Board, our employees and our customers until the completion of the PR24 process.

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

Jeremy Pelczer
Chairman of the Nomination Committee

2 July 2021

Members and attendance:	
Jeremy Pelczer	**4/4**
Dave Shemmans	**3/4**
Murray Legg	**4/4**
Jon Woods	**4/4**
Ian Cain	**4/4**

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

Responsibilities:

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

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

Activities of the Committee

The Nomination Committee met four times during the year, focusing on succession planning and the performance of the Committee and individual directors as part of the review of Board effectiveness. Jeremy Pelczer does not chair the Committee when it discusses his performance as Chairman.

Following the appointment of Ian Cain in February 2020 as the Company's new Chief Executive Officer, the Board is pleased to recognise the focus on customer experience, digital innovation and business strategy that Ian has brought to the business. In particular, the Committee notes the enhancement of Ian's executive management team in the year with the appointment of John Gilbert as Chief Information Officer and Kate Thornton as Chief Customer Officer. Both bring a wealth of experience in the digital and customer service areas respectively, which has had a positive impact on the capabilities and strategic outlook of the management team.

With respect to Board succession, Dave Shemmans' third and final three-year term commenced 31 August 2020 as an independent non-executive director of the Board. In addition, as part of an expansion of the formal Board committees, the Board appointed Dave as Chair of the Health, Safety and Wellbeing Committee in the year and he continues in his role as the non-executive director designated to liaise with our workforce.

Report from the Nomination Committee

Continued

The Committee also approved and recommended to the Board that Murray Legg serve a third and final three-year term as the senior independent non-executive director, effective from 24 March 2021. During the year, Murray was also appointed as Chair of the Audit Committee of East Surrey Holdings, the parent company of SES Water. The Board does not consider this additional role has any implications for Murray's role as the senior independent non-executive director of SES Water.

The Committee is also pleased to have approved and recommended to the Board that Jon Woods serve a third and final term from April 2022 to March 2025 as non-executive director. This new term will coincide with Jon's appointment as Chair of the Remuneration Committee, effective from 1 April 2022.

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

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

Steve Crabb was appointed as Chair of the Customer Scrutiny Panel, replacing Graham Hanson effective from April 2021. Steve brings with him a history of customer service and advocacy which will allow the optimal balance to be struck between support and challenge as the Company continues to focus on transforming the experience it offers customers and engages them in its future plans, ahead of PR24.

The Committee progressed its succession plan to appoint a new Chair of the Company, replacing Jeremy Pelczer whose third and final term as Chairman will end in March 2022. The Board has determined to appoint Dave Shemmans as Chair of the Company with effect from 1 April 2022. Dave's appointment will run until completion of the PR24 process, which is anticipated, for the purpose of this appointment, to be in December 2024. As such, Dave's term as Chair will end on 31 December 2024. Dave's total period as a director of the Company would therefore be ten years and four months, compared to the normal limit of nine years. It is the Board's view that Dave will be regarded as an independent non-executive director upon his appointment as Chair.

It is also proposed that Dave will succeed Jeremy as Chair of East Surrey Holdings, the parent company of SES Water and of various non-regulated companies including SES Water Services. The Board does not consider this additional role has any implications for Dave being regarded as an Independent Chair of the SES Water Board.

Murray Legg, the senior independent non-executive director on the Board, has independently confirmed that all Board members support Dave Shemmans' appointment.

The Committee considered all the above appointments in the light of the current lack of diversity on the Company's Board and committees. The Committee is cognisant that such appointments do not address the current lack of diversity in such forums, and the Committee will continue to focus on this imbalance when considering future candidates.

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

The Board is committed to evaluating its performance every two years, with the most recent evaluation being concluded in June 2021, with the aid of an external facilitator (Independent Audit) and the findings were reported to the Board. The Board concluded during this recent review that it remained satisfied that the Committee continued to perform its duties in line with its terms of reference.

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

Report from the Audit Committee

Statement by the Chairman of the Audit Committee

Murray Legg
Chairman of the Audit Committee

A summary of the Committee's activities in the 2020/21 reporting year.

The Committee's main focus in 2020/21 has been supporting and challenging management on its financial resilience and liquidity in the light of the COVID-19 pandemic. The Committee has been closely involved in ensuring that appropriately resilient plans were put in place by management to ensure the ongoing liquidity of the Company. This has involved ensuring that available debt facilities remained adequate during the year, especially in the light of lower or deferred cash collections from household and non-household customers impacted by the pandemic. This has also involved the stress-testing of management's liquidity scenarios and assumptions, and a review of management's debt facility and covenant requirements under such circumstances.

In addition, in anticipation of the upcoming launch of the Company's new billing system, the Committee has continued to consider the risks to accurate and timely financial reporting for the Company within the revenue and billing financial process. The Committee continues to ensure appropriate 'transition controls' will be in place prior to the imminent go-live of the new billing system and also that appropriate IT general computer controls over the financial systems will be functioning effectively as part of the transition. Specific detailed transition work will be covered by the Committee in 2021/22.

The above activities were in addition to the core activities of the Committee in 2020/21, which include ensuring compliance with statutory and regulatory requirements, and that the Company has provided a long-term viability statement. The Committee also focused on maintaining the highest standards of integrity, financial reporting, risk management and internal controls within the Company. Further details of these core activities during 2020/21 are provided in this report.

I continue to be impressed by the insight, diligence and seriousness the Company applies to all its assurance activities, and to the work performed to ensure the ongoing financial resilience of the Company in the light of the COVID-19 pandemic. In the prior year this has also included implementation of a Finance Transformation programme, which has strengthened the quality of finance staff and overall processes and controls within the finance function.

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

The review of the effectiveness of the Board and its committees, which included an externally facilitated review, concluded that the Audit Committee continued to fulfil its objectives appropriately.

Murray Legg
Chairman of the Audit Committee

2 July 2021

Report from the Audit Committee

Continued

Members and attendance:	
Murray Legg	**4/4**
Dave Shemmans	**3/4**
Jon Woods	**4/4**

Attendees:

The Chairman, Chief Executive Officer, Chief Financial Officer, Quality and Compliance Director, Chief Information Officer and shareholder representatives attend each meeting by invitation. External auditors attend meetings at least twice each year and meet with the Committee without management present at least once every year. Other members of the financial and general management team attend meetings periodically by invitation.

Responsibilities:

- Reviewing the form and content of the Company's interim and year-end accounts and results announcements
- Reviewing submissions to Ofwat, including annual performance reports, price control compliance, risk and compliance statements and periodic business plans and resubmissions
- Reviewing the effectiveness of internal controls and risk management systems
- Consideration of the need for an internal audit function within the Company
- Overseeing the relationship with the external auditors, including approval of audit plans, fees and assessment of their objectivity and independence.

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

Composition and training of the Committee

Murray Legg is considered by the Board to have recent and relevant financial experience because he is a chartered accountant who has audited and advised major UK utilities and a variety of listed and unlisted companies in other sectors in a series of increasingly senior roles at PwC for over 35 years. During 2020/21 he has also been the Chairman of the Audit Committee for a UK-listed company.

The Committee receives regular accounting and corporate governance updates at least twice each year as well as specific or personal training as required. During 2020/21, members of the Committee, in conjunction with the full Board, received specific cyber security training and online training provided by the Company covering a variety of topics, including whistle-blowing and data protection. Members of the Committee periodically visit water treatment works, Bough Beech Reservoir, and other sites where operational practices and issues are explained. Advice on regulatory developments is made available to the Committee from specialist advisors on regulatory matters.

Main activities of the Committee

The Audit Committee met four times during 2020/21, and on 1 June 2021 to consider this Annual Report. At least once a year a private session is held with the Committee and the external auditor without management present. At each meeting the Committee operates to a formal agenda of items including the minutes and action points of the last meeting. This ensures that an accurate record of its deliberations has been maintained and actions are progressed.

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

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

COVID-19

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

- Appropriately resilient plans were put in place by management to ensure the ongoing liquidity of the Company. This has involved ensuring that available debt facilities remained adequate during the year, especially in the light of lower or deferred cash collections from household and non-household customers impacted by the pandemic
- There continues to be stress-testing of management's liquidity scenarios and assumptions, and a review of management's debt facility and covenant requirements under such circumstances. Stress-testing scenarios have centred around the reductions in revenue (and therefore cash) associated with both the household and non-household retail markets, changes in the profiling of capital expenditure, flexibility in dividend payments and associated levels of potential bad debt resulting from the economic downturn
- Work has been performed with management on the recommendations to the Board in respect of the optimal financial options to choose in the long-term interest of the Company's customers and other stakeholders
- Appropriate disclosure in the November 2020 interim announcement and in this Annual Report has been provided in respect of the impact of COVID-19 on financial reporting where relevant, for example bad debt provisioning.

Cyber security

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

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

Implementation of the Company's new billing system

In anticipation of the launch of the Company's new billing system, the Committee has continued to consider the risks to accurate and timely financial reporting within the revenue and billing financial process. The Committee will ensure that appropriate 'transition controls' will be in place prior to go-live of the system (such as reconciliation of customer debt balances from the old to the new system) and also that appropriate IT general computer controls over the financial systems will function effectively as part of the transition. The Committee is supported in this regard by reports from the Chief Information Officer and the external auditor.

Brexit

The Committee, together with the Board, also considered any ongoing effects of Brexit on the Company during the year following the UK's exit from the European Union on 31 January 2020. While no significant adverse effects on the Company have been noted following the 31 January 2020 exit date, the Committee did consider potential chemical inventories and labour constraints, satisfying itself that the mitigation activities proposed by management continue to be sufficient should any related adverse effects manifest themselves.

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

- Documents required by Ofwat to be published by the Company, including the Annual Performance Report (incorporating regulatory accounts, performance against Final Determination performance measures, and financial resilience measures); targeted assurance plans; and the Company's wholesale, household, developer services and New Appointment and Variations (NAV) charges schemes
- The Company's risk register, including reviewing and challenging at six-monthly intervals management's assessment of the key risks faced by the business, the probability of their occurrence and the impact of mitigation measures in place. The key risks from the Company's latest risk register are illustrated on pages 58 to 63 of this report
- The Company's progress in developing its business-wide systems resilience plans, in line with Ofwat requirements and sector best practice
- The Company's long-term viability statement, going concern assumption, tax policy statement and certificates of compliance with its Instrument of Appointment
- The Company's compliance with covenants associated with its £100 million index-linked bond, including the maintenance of appropriate financial ratios and the funding of ring-fenced reserve accounts
- The operation of internal controls within the business and progress with management responses on detailed control points identified by external audits
- The operation of the Company's compliance and assurance function and the associated programme of internal audits

Report from the Audit Committee

Continued

- Oversight of management's work with Mott MacDonald, the external auditor of the Company's regulatory performance commitments, including interim and year-end reviews
- Key policies under annual review, including the Company's Code of Conduct and whistle-blowing policies, together with consideration of new Company policies, such as an Equality, Diversity and Inclusion policy and a Plastics policy
- The Company's consideration of the effect of any new accounting standards to be adopted in 2021/22
- The appropriate treatment in the financial statements of Government mandated changes in tax rates
- The appropriateness of the underlying actuarial assumptions underpinning the triennial valuation of the Company's section of the Water Companies Pension Scheme (WCPS)
- The appointment process which replaced Wilkins Kennedy with EY as the Company's tax advisor
- Review of compliance of the Company on service level agreements with SES Business Water and other associated companies, ensuring services provided are on an arm's-length basis and no cross-subsidy from the appointed business is occurring
- Formal evaluation of the performance of the external auditor.

Significant accounting judgements

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

The Committee considers that the key estimates and judgements are:

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

Going concern

Having considered a paper from management on the Company's liquidity and forecast obligations for the immediate future and for the period to 31 March 2031, and having made appropriate enquiries of management, the Committee supported the directors' assessment that the Company should adopt a going concern assumption for the preparation of the annual financial statements and should provide a long-term viability statement (which considers Ofwat's guidance in this area as detailed in Information Notice 19/07) as set out on pages 77 and 78. The Committee noted that management had appropriately considered the effects of COVID-19 within this going concern assessment, to the best of their knowledge given the information available at the time.

Fair, balanced and understandable report

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

In considering the advice to be given to the Board, the Committee reviewed the Company's processes for ensuring the accuracy of information within this Annual Report, noting the continuous updates to the well-established processes for assurance of key performance measures (including those required for regulatory purposes) and underpinning the Company's Risk and Compliance Statement to the Water Services Regulatory Authority (which can be found in the Annual Performance Report 2021), as well as the financial controls and audit procedures for ensuring the integrity of the accounts.

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

External auditor

The Committee approved PwC's proposed approach for the year-end statutory audit at its meeting in September 2020. Regular dialogue was held with the auditor regarding the progress and findings from the audit, including additional procedures conducted as a result of the impact of COVID-19. The Committee approved the management representations to the external auditor and also requested feedback from both management and the external audit team about the effectiveness of the audit carried out.

The effectiveness of the audit process and quality of the audit were assessed by the Committee through review of PwC's reports and communications during the year, and formal feedback will be provided in July 2021 to PwC.

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

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

Note 6 to the statutory accounts (page 132) shows that the fees due to PwC all related to audit or other assurance procedures on the Company's statutory and regulatory obligations. The Committee concurred with the auditor's assessment that there are no factors which would impair its objectivity and independence. The Committee is satisfied that there are adequate safeguards in place to protect the independence and objectivity of the service provided by the external auditor including a requirement for all non-audit work likely to exceed £10,000 to be approved by the Chairman of the Committee. Amounts under this threshold will be approved by the Chief Financial Officer and are considered pre-approved by the Audit Committee.

Statement by the Chairman of the Remuneration Committee

A summary of the Committee's activities in the 2020/21 reporting year.

Dave Shemmans
Chairman of the Remuneration Committee

The work of the Committee in 2020/21 and this remuneration report focuses on the effectiveness of the incentive schemes for executive, senior management and all employees, especially in the light of the work performed by all individuals throughout the COVID-19 pandemic in the last year.

As noted in last year's report, an updated executive pay policy was implemented commencing 1 April 2020, which took into account Ofwat's executive pay remuneration recommendations made as part of the PR19 Business Plan process, together with Ofwat's views in the latest reporting under its Board Leadership, Transparency and Governance principles. In the current year, this policy has allowed the Committee the flexibility to consider pay wards in the context of the Company's response to COVID-19, ensuring the appropriate remuneration has been provided to executives, and the wider employees, in light of the difficult circumstances resulting from the pandemic.

I am pleased to note that this updated remuneration policy has strengthened the link between executive pay and delivery for customers, in both the areas of annual bonus and long-term incentive plans (LTIP). Following further feedback from Ofwat, we have enhanced this executive pay policy with respect to LTIP awards even further, such that the focus is primarily on customer performance through long-term business resilience, as well as customer service and support, and therefore 80% of any potential LTIP award is clearly aligned to delivery for customers. The weighting of annual bonus targets for the Chief Executive Officer and Chief Financial Officer continues to ensure that 70% of any annual bonus relates directly to the delivery of our customer pledges.

Further detail of these executive remuneration policy matters, in addition to the achievements against the targets for 2020/21 shared by all employees – and the consequent bonuses payable to executive directors – are set out in this report.

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

I continue to believe that as a Company, we do not discriminate against any protective characteristic and we provide equal opportunities for everyone in our business. We continue to review our gender pay gap and data from the latest available report (dated 5 April 2020) is detailed in this report. Our 2020 report shows the difference in average pay is 15.1% (2019: 12.3%), although the Company has recruited additional female staff in the lower pay quartiles, however this is still not fully reflected in the upper quartile employee population. The Committee continues to promote a number of measures to help the Company fulfil its commitment to creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve.

The review of the effectiveness of the Board and its committees, which this year included an externally facilitated review, concluded that the Remuneration Committee continued to fulfil its objectives appropriately.

Dave Shemmans
Chairman of the Remuneration Committee

2 July 2021

Implementation of directors' remuneration policy in 2020/21

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2020/21.

Base Salary

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

Benefits

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

Retirement benefits

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

Annual bonus

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

Long-term incentive plan

- Rewards performance against targets set by the Board for financial performance over three years.

Membership and attendance:

Dave Shemmans, Chairman	2/2
Murray Legg	2/2
Jon Woods	2/2

Attendees:

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

Responsibilities:

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

Terms of reference:

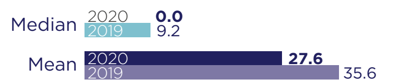
The Committee's full terms of reference as approved by the Board can be found on the Company's website.

Report from the Remuneration Committee
Continued

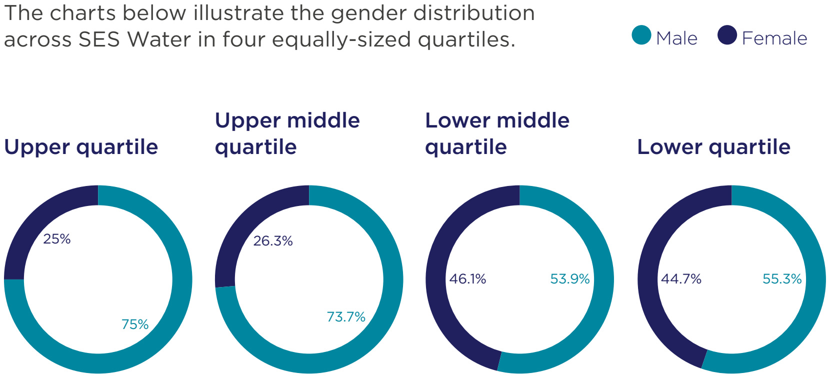
Gender pay gap
The gender pay gap is an equality measure that shows the difference in average earnings between men and women. It is reported as a mean (average) of hourly rates and a median (mid-point) of hourly rates paid to both males and females.

Gender pay gap 2020 (%)

Bonus gap 2020 (%)



Pay quartiles
The charts below illustrate the gender distribution across SES Water in four equally-sized quartiles.

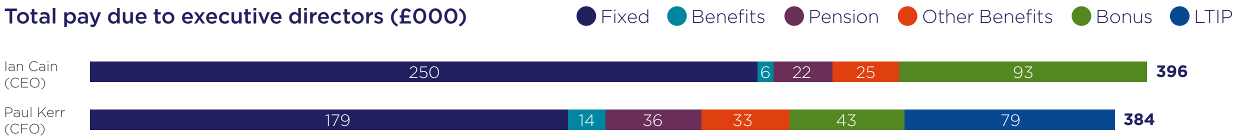


Gender split by role

	Female	Male	Total
Director		2	**2**
Employee	126	196	**322**
Non-executive director (NED)		4	**4**
Senior manager	9	11	**20**
Total	**135**	**213**	**348**

Implementation of directors' remuneration policy in 2020/21
The table below summarises the implementation of the directors' remuneration policy for executive directors in 2020/21. As described further in this report, an updated executive directors' remuneration policy has been implemented from 1 April 2021 onwards which has enhanced the executive pay policy with respect to LTIP awards further.

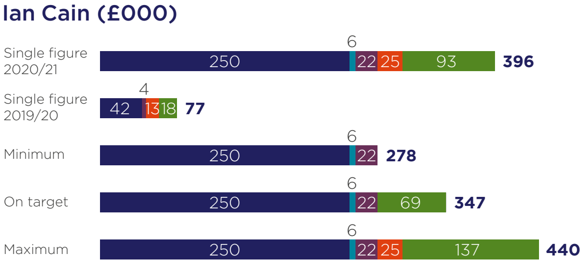
Total pay due to executive directors (£000)



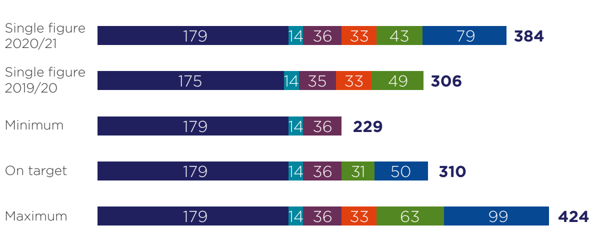
Single total figure of remuneration for executive directors for 2020/21 compared with outcomes
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits, bonus and LTIP. The charts below show the relative split of between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 96. Further information on the single total figure of remuneration can be seen on page 98.

Fixed · Benefits · Pension · Other Benefits · Bonus · LTIP

Ian Cain (£000)



Paul Kerr (£000)



The Company's remuneration policy is designed to attract and retain good quality senior executives having regard to other UK-based businesses. It provides for a remuneration package, the variable element of which reflects the Company's performance against stretching customer service, operational and financial objectives. The Board considers that the performance element of the remuneration package is appropriate given the main activities of the Company. Full details of each component of the directors' remuneration applicable for the 12 months ended 31 March 2021 are shown below.

Updated remuneration policy – effective from 1 April 2021

While this remuneration report focuses on Board and executive directors' remuneration for the year ended 31 March 2021, the Board acknowledges and fully agrees with Ofwat's recent pronouncements on its expectations with respect to companies being transparent about how executives are remunerated and especially how any performance-related element is linked to customer interests and the measures are stretching in nature. The Board has considered Ofwat's latest views in its February 2021 report on Board Leadership, Transparency and Governance principles in this regard.

Specifically, for the updated remuneration policy effective from 1 April 2021, the Remuneration Committee has clarified the substantial link between executive pay and delivery for customers within the Company's long-term incentive plans (LTIPs). The latter now clarifies further the customer-based targets and measurement criteria, strengthening the position that 80% of any potential LTIP award be aligned to customer performance and service.

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

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

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

Measures are in place to avoid or deal with any potential conflicts of interest that should arise during this process. Neither the Chief Executive Officer or Chief Financial Officer are present during the discussions of their potential annual bonus or LTIP awards, and the Committee has access to third-party audit reports to objectively verify both the financial and non-financial performance of the business, including delivery of service to the Company's customers.

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

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

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

For clarity in this report, each of the following sections details elements of executive directors' remuneration for the 12 months ended 31 March 2021, and for the LTIPs all awards were considered under the updated remuneration policy considered above.

Components of executive directors' remuneration applicable for the 12 months ended 31 March 2021

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

1. Base salary

Purpose and link to strategy

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

Report from the Remuneration Committee
Continued

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

Salary levels are determined by the Committee taking into account a range of factors including:
- Role, experience and performance
- Prevailing market conditions
- External benchmarks for similar roles at comparable companies
- Award levels of the rest of the business

Opportunity
Increases in base salaries are reviewed in the context of salary increases across the Company as a whole. The Committee considers any reasons why increases should diverge from this benchmark, including:
- Increase in scope, complexity or responsibility of the role
- Increase on promotion to executive director
- A salary falling significantly below market positioning

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

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

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

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

Performance metrics
Not applicable.

3. Retirement benefits
Purpose and link to strategy
- Purpose is to recruit and retain directors of the calibre required for the business
- Provides market-competitive post-employment benefits
- The executive pension contributions are set per individual's contract. This is higher than other employees within the business (at c.15% for executive directors compared to between 6 and 10% for all other employees) and is considered part of their overall remuneration package.

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

The defined benefit scheme was closed to new entrants from 1 May 2002. Any executive director who is a member of the closed scheme can continue to receive benefits in accordance with the terms of the scheme. The executive directors are not members of the defined benefit scheme.

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

Performance metrics
Not applicable.

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

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

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

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

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

The specific customer pledges are broken down further into the following key components, which will be measured and monitored for achievement by the Remuneration Committee. These specific customer pledges have been determined by the Remuneration Committee to be those of most relevance to delivering quality and consistent levels of high customer service in the year ended 31 March 2021.

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

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

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

5. Long-term incentive plan

Purpose and link to strategy

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

Operation

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

Opportunity

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

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

Performance metrics

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

- Customer performance, service and support – 80%
- Environmental and reputational - 20%

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

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

Report from the Remuneration Committee

Continued

Customer performance through business resilience

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

Customer service and support

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

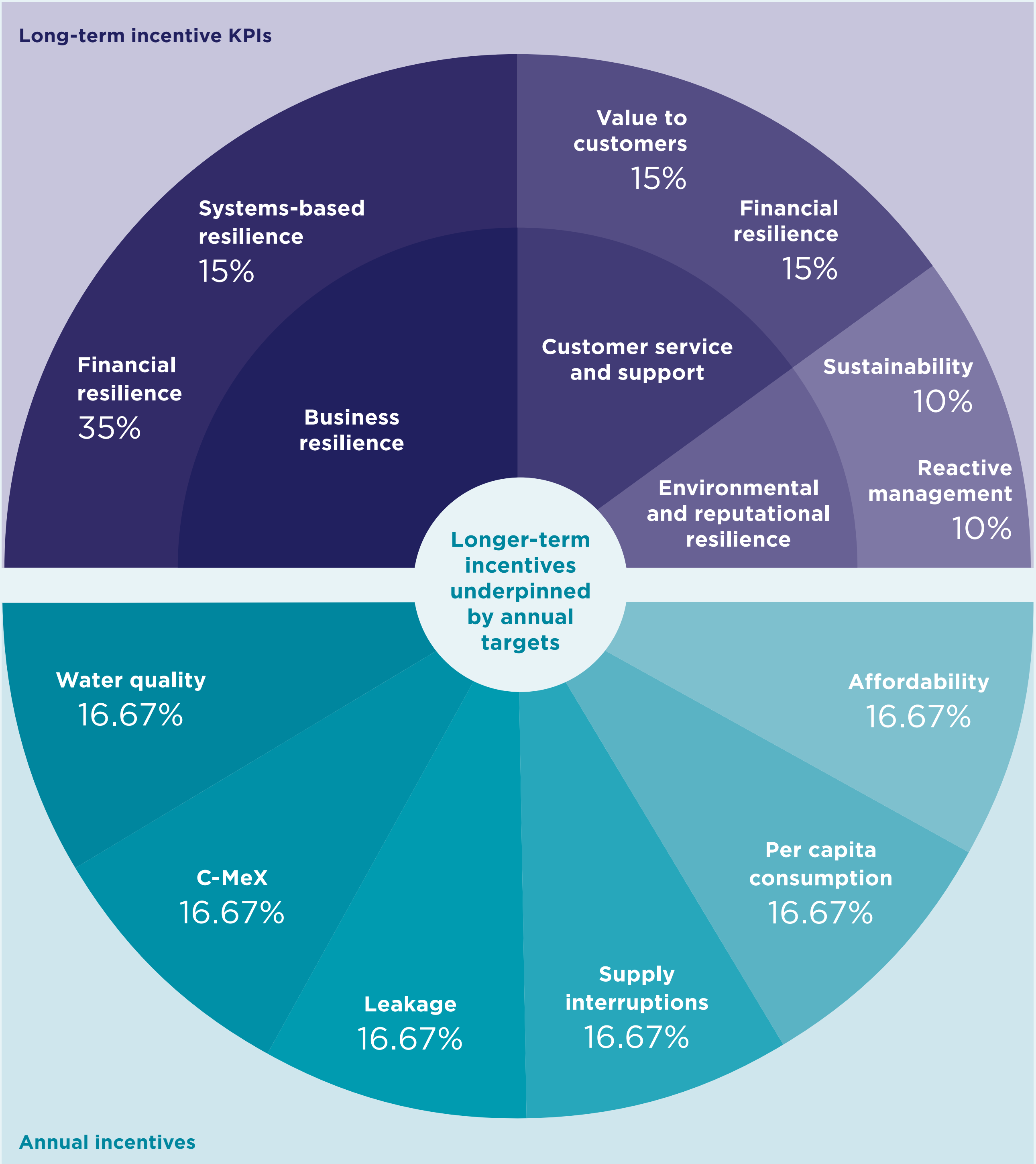
Environmental and reputational resilience

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

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

Linkage of annual and long-term incentives to business strategy

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



Report from the Remuneration Committee

Continued

Remuneration scenarios for executive directors

	Minimum	On target	Maximum
Fixed pay	Fixed elements of remuneration are base salary and pensions. Base salary and the value of benefits are included in the single figure calculations on page 98	Not Applicable	Not applicable
Variable – bonus	No bonus	50% of potential annual bonus achieved for delivering at performance against the respective bonus targets	100% of potential annual bonus achieved for delivering at or above the highest performance against the respective bonus targets
Variable – LTIP	No reward earned	On Target reward earned (CEO 35%, CFO 30%)	Maximum reward earned (CEO 70%, CFO 60%)

Non-executive director fees

Non-executive directors receive only a fee, which is set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge, skills and experience. Fees are based on the level of fees paid to non-executive directors serving on the Boards of comparable companies and the time commitment and contribution expected for the role. Fees comprise a basic fee plus enhancements for additional responsibilities including chairing Committees. Non-executive directors representing shareholders receive no fees from the Company.

Fees are reviewed every year and amended to reflect market positioning and any change in responsibilities. The Committee and Chief Executive Officer recommend the remuneration of the Chairman to the Board. The Chairman, Chief Executive Officer and Company Secretary recommend the remuneration of other non-executive directors to the Board. Non-executive directors do not receive an annual bonus nor do they receive any benefits or pension contributions.

Pay and conditions for other employees

The Company aims to provide an overall remuneration package for all its employees that not only complies with any statutory requirements but is competitive with remuneration for equivalent skills offered by other comparable employers. Remuneration is applied fairly and equitably across all employees. In particular, the Company applies the same core principles to all employees, whether executive directors or the most junior members of staff, namely:

- Employees will be remunerated in a manner that underpins the long-term stability of the business
- Each role will be remunerated fairly and consistently with due regard to market conditions, internal consistency and the Company's ability to pay.

Many elements of fixed pay, benefits and pension arrangements are common to all employees. In particular, employees all have the same rights to participate, albeit it at different rates, in the Company's defined contribution pension scheme (and for those employees joining before 1 May 2002, the Company's defined benefit pension scheme), the cash health plan introduced in 2014 and the employee annual bonus scheme introduced in 2015.

As a Company, we continue to believe that we do not discriminate on gender pay and provide equal opportunities for progression within our business.

However, we commissioned our fifth gender pay gap report for the period ended March 2020. This showed the difference in average pay is 15.1% (2019: 12.3%), which is lower than the national average but still too high. The gap is caused by having fewer women in senior roles, which is not uncommon in the water industry, as the STEM (science, technology, engineering and maths) fields have been predominantly male occupations with historically low participation among women. In fact, just 22% of the core STEM workforce in the UK are women (WISE UK statistics 2018) and the UK has the lowest percentage of female engineering professionals in Europe.

Although our gap is lower than the national average, the challenge for us is that the gap has widened in the year to March 2020 and further work is needed to eliminate the gap. At SES Water we understand that people are our greatest asset and believe that by creating a diverse, gender balanced workforce that this not only helps to ensure that we have equal opportunities for all employees but also reflects the customers we serve. We continue to push ourselves in the recruitment process to ensure we are inclusive across all areas and ensure that our appraisal process is fair across all employees regardless of gender. We also ensure that – when we recruit for senior roles – we have a gender balanced objective and task our search consultants to provide a long list of candidates for both genders, and we do not select or bias on gender in the final selection.

Annual pay awards for most employees are negotiated with employee representatives taking into account the Company's ability to pay, comparable awards in other businesses, and increases in the cost of living for employees. Agreed awards are effective from 1 April each year.

Engagement with the workforce took place as part of the overall pay discussions, reviewing various elements of pay, including workforce annual pay increases to executive and senior pay increases. Agreement was reached with employee representatives in early 2020 for pay awards for the next two years commencing 1 April 2020 comprising:

- An annual pay increase of 2.2% for 2020 based on the November 2019 Retail Price Index (RPI) and for 2021 this will move to a blended rate of 50% of the November 2020 Consumer Price Index Household (CPIH) and 50% of the November 2020 RPI. This includes a guaranteed minimum increase of 2% for 2021 if the blended rate is less than 2%

- Annual pay increases will coincide with the start of each financial year

- The annual pay rise will include basic pay, overtime, shift allowances, seven day working and other allowances

- Further to the pay increase it was agreed that an additional one day of holiday entitlement, for 2020/21 only, will be provided to all employees who joined on or before 2 January 2020. This is in recognition of the significant contribution and efforts by all employees in preparation for the challenging customer and performance deliverables we will target in our Business Plan for 2020 to 2025

- The opportunity to earn an employee bonus upon achievement of Company customer service, health, safety, quality, environmental and financial targets. From 1 April 2017 the maximum bonus payable for achievement of all targets was £550 p.a.

The Remuneration Committee takes into account the annual pay award for employees alongside the factors outlined above when considering any basic pay award for executive directors. Senior employees who are eligible for an annual bonus award share the same customer service, operational, financial and behavioural targets as the executive directors and have personal targets set in the same manner and consistent with those of the executive directors.

Recruitment remuneration policy
When hiring a new executive director, the Committee will seek to use the policy detailed in the tables above to determine an appropriate ongoing remuneration package. If necessary, to facilitate the hiring of an executive of appropriate calibre, the Committee may exercise discretion to include any other remuneration component or award outside this policy as agreed with the Board. Appropriate costs and support will be covered if the recruitment requires the individual to relocate.

Service contracts
The service contracts for executive directors are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the employee. The executive directors' contracts commenced on the following dates:

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

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

- Jeremy Pelczer – 1 April 2013
- Dave Shemmans – 1 September 2014
- Murray Legg – 1 October 2015
- Jon Woods – 1 March 2016
- Seiji Kitajima – 6 February 2019 (resigned on 1 June 2021)
- Kenji Oida – 1 May 2019
- Ken Kageyama – 1 June 2021

Report from the Remuneration Committee

Continued

Single total figure of remuneration (audited)

The table below shows the total remuneration earned by each director in 2020/21.

	Salary		Taxable benefits[2]		Annual bonus[3]		Long-term incentive[4]	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Executive directors								
Ian Cain[1]	**250**	42	**6**	–	**93**	18	**–**	–
Paul Kerr	**179**	175	**14**	14	**43**	49	**79**	–
Total exec directors	**429**	217	**20**	14	**136**	67	**79**	–
Non-executive directors[7]								
Jeremy Pelczer	**66**	65	**–**	–	**–**	–	**–**	–
Murray Legg	**39**	38	**–**	–	**–**	–	**–**	–
David Shemmans	**36**	35	**–**	–	**–**	–	**–**	–
Jon Woods	**33**	32	**–**	–	**–**	–	**–**	–
Total non-exec directors	**174**	170	**–**	–	**–**	–	**–**	–
Total	**603**	387	**20**	14	**136**	67	**79**	–

1 Ian Cain was appointed as Chief Executive Officer on 12 February 2020. The 2020 amounts include his earned salary, pension, benefits and bonus in the period up to 31 March 2020.

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

3. Annual bonuses are variable and were determined in accordance with the policy described on page 92 to 93 and reflect the performance against the targets on page 92 to 93.

4. The 2018 LTIP scheme closed on 31 March 2021 and a payment of £79,100 was made to Paul Kerr in respect of this scheme as detailed below. The other current LTIP schemes (the 2019 and 2020 LTIP) have expected payments accrued as at 31 March 2021 but not included in the tables given the payment dates of 2022 and 2023 respectively.

Payments to past directors (audited)

Anthony Ferrar retired from the Company on 29 February 2020; Anthony received £21,000 in year ending 31 March for transition work to his successor Ian Cain and also for his role as pension trustee representative.

Relevant details of the annual bonus scheme

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

Customer Pledge	% split	Actual result
Water Quality	16.67%	12.52%
C-MeX/D-MeX	16.67%	5.53%
Leakage	16.67%	12.52%
Supply interruptions	16.67%	15.03%
PCC	16.67%	8.35%
Affordability	16.67%	12.52%
Total	100.00%	66.47%

Pension related benefits[5]		Other Payments[6]		Total Remuneration		Fixed Remuneration		Variable Remuneration	
2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
22	4	**25**	13	**396**	77	**303**	59	**93**	18
36	35	**33**	33	**384**	306	**262**	257	**122**	49
58	39	**58**	46	**780**	383	**565**	316	**215**	67
–	–	**–**	–	**66**	65	**66**	65	**–**	–
–	–	**–**	–	**39**	38	**39**	38	**–**	–
–	–	**–**	–	**36**	35	**36**	35	**–**	–
–	–	**–**	–	**33**	32	**33**	32	**–**	–
–	–	**–**	–	**174**	170	**174**	170	**–**	–
58	39	**58**	46	**954**	553	**739**	486	**215**	67

5. Pension-related benefits represent the Company's contributions to the directors' personal pension plans.

6. Other payments include payment to Ian Cain of £25,000 (2020: £12,500) for mitigation of loss of bonus and LTIP payments from previous employment. A final payment of £33,000 was paid to Paul Kerr (2020: £33,000) in respect of mitigation of loss of bonus and LTIP from previous employment.

7 Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 96. The Chairman also acts as the Chairman of East Surrey Holdings Ltd, and the Audit Committee Chair also acts as the Audit Committee Chairman of East Surrey Holdings Ltd. None of the other non-executives received any remuneration from the Company.

Explanation of variable pay element on CEO and CFO for 31 March 2021 (audited)

Annual bonus payments

The annual bonus payments for Ian Cain and Paul Kerr of £92,800 and £43,300 for the year ended 31 March 2021 as noted above were based on achievement of specific customer pledges and personal targets for the year, with the results as follows:

	Customer pledges			Personal			Total bonus		
	Max %	Actual %	Actual £	Max %	Actual %	Actual £	Max %	Actual %	Actual £
Ian Cain	38.5%	25.6%	£63.9k	16.5%	11.6%	£28.9k	55%	37.2%	£92.8k
Paul Kerr	24.5%	16.3%	£29.2k	10.5%	7.9%	£14.1k	35%	24.2%	£43.3k

Report from the Remuneration Committee

Continued

Customer pledges

In line with the Company's executive pay policy, bonuses equivalent to a maximum of 38.5% and 24.5% of Ian and Paul's annual salaries respectively relates to achievement of six specific customer pledges, equally weighted. Actual performance against these pledges is noted as follows, showing that both executives were awarded 66.47% of these bonus levels – resulting in an actual payout of 25.6% and 16.3% of their annual salaries respectively.

Customer Pledge	% split	% Achieved	Comment	Actual result
Water Quality	16.67%	75.00%	While certain regulatory targets were marginally missed, overall water quality remains in the top half of the industry and no significant events in the year.	12.52%
C-MeX/D-MeX	16.67%	33.00%	Reflects the fact that, despite strong customer satisfaction score from regular Company reviews with customers, C-MeX position of 14th place confirmed for the year and D-MeX performance not at targeted levels	5.53%
Leakage	16.67%	75.00%	Acknowledges that leakage target was achieved in the year, but work continues to be completed to reach AMP targets	12.52%
Supply interruptions	16.67%	90.00%	While regulatory target was not achieved in the year, this was only due to one significant burst. Otherwise, PC would have been met. Also reflects excellent unplanned outage performance	15.03%
PCC	16.67%	50.00%	While PCC has been severely impacted by COVID-19 in the current year and target has not been met, there has been positive activity on metering and water efficiency programmes in difficult circumstances in the year	8.35%
Affordability	16.67%	75.00%	Reflects the significant efforts to support customers financially during the COVID-19 pandemic via social tariff and payment holidays, but mitigated by poor voids performance	12.52%
Total	100.00%			66.47%

Personal

In line with the Company's executive pay policy, bonuses equivalent to a maximum of 16.5% and 10.5% of Ian and Paul's annual salaries respectively relate to achievement of their personal objectives for the year. Actual performance against these personal objectives resulted in Ian and Paul receiving 70% and 75% respectively of these personal bonus levels - resulting in an actual payout of 11.6% and 7.9% of their annual salaries respectively. These payout levels reflected the achievement of a significant number of their personal objectives, including ensuring stable management of daily operations, key recruitment and restructuring targets and substantial improvements in the areas of governance and controls across the business.

LTIP payments

The LTIP payment for Paul Kerr of £79,100 in respect of the 2018 LTIP, which represented 79.9% of the maximum reward. In accordance with the 2018 LTIP scheme rules and metrics, this payout reflected achievement of certain financial metrics for the three years to 31 March 2021, in addition the assessed contribution from Paul to the businesses' customer, regulatory and governance performance over the three-year period under review. Note that, in accordance with the enhanced executive pay policy for LTIPs, future LTIP performance - commencing with the 2020 LTIP - will be assessed against the criteria noted on page 100.

Percentage change in remuneration for the CEO and CFO

The table below shows the percentage change in remuneration between the years ended 31 March 2021 and 31 March 2020 for the CEO, CFO and all employees:

	Salaries and fees	Taxable benefits	Annual incentives
CEO[1]	0.0%	0.0%	416.7%
CFO[2]	2.2%	0.0%	149.0%
All employees	2.2%	(2.1%)	7.3%

1 The CEO annual incentive increase of 417% is driven by a bonus covering 1 month of Ian Cain joining in February 20 for financial year ending 31 March 20, compared to a full year's bonus earned in financial year ending 31 March 21
2 The CFO annual incentive increase of 149% is driven by the first LTIP payment being made covering the years 2018 to 2021.

The non-executive directors aligned to all employees who received a 2.2% pay rise; this is reviewed annually.

CEO pay ratio

As in prior year reporting and in line with regulatory requirements, we have chosen to use the Department of Business, Energy and Industrial Strategy (BEIS) methodology Option A to show the pay ratio between the CEO compared to the total remuneration received by all employees. This includes all remuneration elements including benefits, overtime and long-term incentives.

The table below provides the ratio between the CEO single figure remuneration, and the median, 25th and 75th percentile remuneration of all full time equivalent employees as at 31 March 21. The CEO median pay is higher than noted in previous year with Ian Cain taking on the role of CEO in February 20 – the prior year comparison is based on previous MD Anthony Ferrar.

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2021	Option A	14:1	13:1	9:1
2020	Option A	14:1	12:1	9:1

Relative importance of employment costs

The table below shows the total of all the Company's employees costs compared to interest paid and capital expenditure:

£000	2021	2020	% change
Employee costs	14,421	13,337	8.1%
Finance costs	7,950	10,201	(22.1%)
Capital expenditure	26,500	35,600	(25.6%)

Directors' report

The directors present their report and audited financial statements for the Company for the year ended 31 March 2021.

Directors and their interests

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

- J Pelczer, Chairman
- I Cain, Chief Executive Officer
- P Kerr, Chief Financial Officer & Company Secretary
- M Legg, senior independent non-executive
- D Shemmans, independent non-executive
- J Woods, independent non-executive
- S Kitajima, non-executive (resigned 1 June 2021)
- K Kageyama, non-executive (appointed 1 June 2021)
- K Oida, non-executive

Service contracts

All current executive directors have service contracts and notice periods as detailed in the Remuneration Committee report on page 97.

Contracts of significance

There were no contracts of significance (including provision of services) existing in the year between the Company and controlling shareholders, or to which the Company is a party and in which a director of the Company is, or was, materially interested.

Further information about directors' interests, together with confirmations and appointments, is contained in the Nomination and Remuneration Committee reports on pages 80 to 82 and 88 to 99.

Reappointment

The articles of association provide that directors must retire at every Annual General Meeting following their last election or reappointment, which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the 'Code'), that all directors should be subject to annual election. Information regarding the appointment of directors is included in the Corporate governance report on pages 71 and 72.

Ownership and relationship with associated companies

The Company is incorporated as a private limited company and domiciled in the UK, with its registered office and principal place of business at 66-74 London Road, Redhill, Surrey, England, RH1 1LJ.

The Company is jointly owned by the major Japanese businesses, Sumitomo Corporation and Osaka Gas. Each has a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd. The full corporate structure is shown on page 13. Except where indicated, all companies within this corporate structure are domiciled in the UK for tax purposes.

Financial transactions with associated companies are disclosed in the separate Annual Performance Report.

Sumisho Osaka Gas Water UK Ltd was established at the time Osaka Gas became a shareholder to enable joint ownership of the East Surrey Holdings Group and is entirely financed by shareholders' equity. East Surrey Holdings Ltd is the holding company for the trading companies of the Group and was the entity acquired by Sumitomo Corporation in February 2013.

The immediate parent of the Company is SESW Holding Company Ltd (which wholly owns the Company), and was established at the time that the Company's £100 million index-linked bond was issued in March 2001 to protect the interests of bond holders by exercising control over distributions. The Company is an associate of other trading and property businesses within the East Surrey Holdings Group, transactions with whom are disclosed on page 13.

The Company has entered into a management agreement with Sumitomo Corporation and Osaka Gas, as controlling shareholders, which complies with the independence procedures as set out in the Listing Rules 6.1.4D. Both the Company and the shareholders (as far as the Company is aware) have complied with these independence provisions. Further information with respect to the Code of Conduct applied by the controlling shareholders with respect to the Company is contained within the Corporate governance report on page 79.

Directors' indemnities and insurance

There are contractual entitlements in place for the directors of the Company to claim indemnification by the Company in respect of certain liabilities, which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provisions, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the Company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the Company.

The Company also maintains an appropriate level of directors' and officers' liability insurance.

Principal activities

The Company is engaged principally in the supply of water across the London Boroughs of Croydon (4%), Merton (9%) and Sutton (62%), as well as Reigate and Banstead (13%), Epsom and Ewell (11%) and parts of Kent and West Sussex.

Stakeholders – employee engagement

Details of engagement by the directors during the year with the Company's employees is provided on pages 50 to 53 and 72 to 74.

Stakeholders – other engagement

Details of engagement by the directors during the year with the Company's other stakeholders is provided on pages 50 to 53 and 72 to 73.

Financial results and dividends

Financial performance for the year is described on pages 54 to 57 in the financial review.

Revenue for the year ended 31 March 2021 was £65.8 million (2020: £69.8 million). Profit before taxation was £3.9 million (2020: £10.7 million). A profit of £3.6 million (2020: £4.6 million) was transferred to reserves, out of which a dividend was paid to shareholders.

Details of ordinary dividends declared and paid during the year are given in Note 22 of the financial statements. The total dividend declared and paid for the year ended 31 March 2021 was 0.37 pence (2020: 0.65 pence) per ordinary share.

Dividend policy statement

The Board considers the base level of ordinary dividend for the appointed business should reflect the return on regulatory equity (defined as regulatory capital value less net debt) allowed in the regulator's most recent price review, subject to the Company having adequate resources available to fulfil its overall service commitments and its other financial obligations.

This includes compliance with the covenants associated with its index-linked bond (which are designed to protect the interests of the Company's creditors).

The Board will consider variations from this base level of ordinary dividend reflecting:

- The overall level of service delivered to customers, compliance with statutory obligations, progress with the delivery of regulatory and other obligations. Such other obligations will include delivering to our communities and employees – ensuring that 'in-the-round' delivery is considered
- Known and forecast financial and non-financial performance against regulatory assumptions and internal targets, taking account of the relative importance to customers and stakeholders of such targets.

The Board will explain the way in which these factors have been taken into account in arriving at the dividend declared in the Company's Annual Report, and other publications, and will refer to any quantitative analysis required by reporting standards in support of such explanations.

The Board will adjust base dividends, if necessary, to reflect the Company's performance and delivery to customers, and will take account of the performance levels recently agreed with Ofwat as part of its Final Determination. These performance levels will include consideration of such items as water quality, leakage levels, C-MeX performance, achieving our supply interruption target and ensuring improved resilience to reduce the risk of supply failures.

In particular, before declaring any dividend (including the base dividend) the Company will consider whether:

- The payments would cause significant harm to the Company's financial resilience and the potential impact any distributions may have on customers or employees
- Any payment of outperformance dividends in excess of the return on regulatory equity allowed in the regulator's most recent price review would not be made where the Company was materially failing to meet its performance targets, unless the dividend was accompanied by investment aimed at improving that position
- Any constraints on dividends resulting from the Company's current credit rating.

The above dividend policy has been published on the Company's website and is supplemented by a diagrammatical representation of how the Board applies this dividend policy.

The dividend paid by the appointed business for the year ended 31 March 2021 was £4.3 million (2020: £6.1 million) in line with the above dividend policy. This dividend has been calculated using the latest RCV and net debt amounts for the Company and applying Ofwat's allowed level of return as defined in the Company's Final Determination. The Board considered that such dividends were payable under the policy given that:

- Overall the Company has performed well, to the benefit of its stakeholders, through the very difficult circumstances of the pandemic, responding well operationally and consistently delivering high-quality water to its customers
- In the round, actual performance for the year-ended 31 March 2021 is good in the current circumstances and considering expected delivery in the areas noted in the Company's dividend policy – namely delivering customer service, achieving performance commitments, adhering to community commitments and taking care of our employees
- While all performance commitments were not achieved this year this is not felt to materially detract from the overall good performance in the year
- While financial performance (based on unaudited year-end results) is below budgeted levels for the year (with profit after tax (PAT) at c.£3.6 million), it has been adversely impacted by lower non-household revenues and substantial bad debt charges, which have been due in part to COVID-19. Therefore, such financial performance is not expected to be representative of longer-term profitability

Directors' report

Continued

- There are sufficient distributable reserves and available cash within the Company
- Sufficient liquidity exists under 2021/22 budget, with financial ratios being met
- The Company remains financially resilient, as evidenced through the Long Term Viability Statement documented in this Annual Report, with sufficient headroom (to raise additional debt within our covenants) available to deal with key downside stress testing scenarios
- No constraint on dividends was considered necessary based on the Company's current credit rating
- The shareholders remain supportive, ensuring the company continues to act in the public interest.

Having deferred dividends from June 2020 to September 2020, in November 2020 the Board again deferred a portion of the overall dividend payment to February 2021 given the uncertainty presented at that point in time with respect to pandemic, and resumed dividend payments when assurances on customer service and operational performance had been obtained.

The dividends paid by the non-appointed business was £0.6m (2020: £0.6m). Dividends from non-appointed activities undertaken by the Company are determined based on the financial performance and prospects of these activities and their anticipated need for future investment.

Future developments

A review of future developments for the water industry and the potential effect on the Company is provided within the market review on pages 38 to 41.

Research and development

In the past year, SES Water has continued with both its own innovation developments, and has significantly contributed to the national water industry innovation agenda. The Company's innovation manager has co-ordinated the national leakage innovation heatmap, directly assisted with the national innovation strategy and also co-ordinated the projects submitted by the water-only companies to the Ofwat innovation fund. SES Water contributed two projects, the first seeking to develop an all-electric fuel card solution, which would assist with carbon reduction; and the second looking to reduce the effects of pressure transients on the distribution network.

Energy usage and greenhouse gas emissions

Greenhouse gas emissions are calculated using the UK Water Industry Research Carbon Accounting Workbook which is updated annually to reflect changes to emission factors and carbon reporting guidance from the UK Government. Net operational greenhouse gas emissions in 2020/21 were 2,500 tonnes of carbon dioxide equivalent (tCO_2eq) (2019/20: 3,373 tCO_2eq), a 24% reduction on the previous year. This equates to operational emissions of 40 $kgCO_2eq$ per million litres of treated water (2019/20: 56 $kgCO_2eq$). Using 2019/20 emissions factors, operational emissions for 2020/21 would be equivalent to 42 $kgCO_2e$ per million litres of treated water.

Operational greenhouse gas emissions for 2020/21 for the regulated business include (2019/20 emissions are in brackets):

- Gas consumption: 1,210,127 kWh and 223 tCO_2e (1,200,254 kWh and 245 tCO_2e)
- Consumption of travel fuels: 3,703,921 kWh and 397 tCO_2e (4,499,426 kWh and 482 tCO_2e)
- Purchase of electricity by the Company for its own use, including for transport: 55,409,645 kWh and 0 tCO_2e (51,800,997 kWh and 18 tCO_2e).

Note: all conversions are using the 2020 and 2019 greenhouse gas reporting figures on a net calorific value basis.

The data for consumption of transport fuels covers vehicles for which the Company is responsible for the purchase of fuel. It does not include business miles in company cars which are refunded through expenses. This is because the information is not practical to obtain and the Company continues to explore options to digitise the expenses process to make this information more accessible.

In 2020/21 we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. We have extended the previous year's trial of sub-metering equipment, allowing us to monitor efficiencies of the highest energy-consuming pumps on our main sites on an ongoing basis. The Company has extended its electric vehicle charging infrastructure to now include 42 charging points across 100% of our operational treatment works and head office. The Company has solar panels installed at five treatment works and at its Redhill head office.

In 2020/21 these generated 266,045 kWh (2019: 270,898 kWh). This year, our first Air Source Heat Pump was installed to provide continuous heating to the gas storage and dosing room at one of our treatment works. This is the first step in a move to replace gas heating systems with renewable heating across all of our sites. In addition, our GHG emissions figure was impacted by COVID-19 due to increased demand for water and decreased vehicle movements during lockdowns.

The Company is part of the Water UK commitment for water companies in England to be net zero carbon by 2030. The water industry's routemap to net zero carbon was published in November 2020 and this will be followed by our own routemap, due for publication later in 2021.

Charitable and political donations

During the year, the Company made charitable donations amounting to £46,820 (2020: £38,223). This included a £27,000 donation to the Community Foundation for Surrey]. There were no political donations in the year (2020: nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of contract terms and it is the Company's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Creditor days remain stable at approximately 15 days (2020: 28 days) due to the timing of our final supplier payment run ahead of 31 March 2021 compared to prior year.

Going concern and long-term viability

The going concern and long-term viability statements required by the Disclosure and Transparency Rules are set out on pages 77 and 78 of the Corporate governance report and are incorporated by reference in this report.

Financial instruments

The Company policy in relation to the use of financial instruments can be found in Note 2 to the financial statements.

Instrument of Appointment and Regulatory Accounts

In accordance with its Instrument of Appointment made under the Water Industry Act 1991 as amended, the directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control of the assets of the Appointed Business.

Post-balance sheet events

As disclosed in Note 10 to the Financial Statements, in March 2021 the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. Had the new rate been applied as at 31 March 2021 the maximum impact on deferred tax balances of the rate increase is estimated to be £13.1 million.

On 10 June 2021 a dividend of £1.7 million was declared in respect of FY21 and paid up to the immediate parent company on 18 June 2021.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware:

- There is no relevant audit information of which the Company's auditor is unaware
- Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

PricewaterhouseCoopers LLP (PwC) is the auditor at the date of this report.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate governance report on pages 68 to 79 of this Annual Report. The Corporate governance report forms part of this directors' report and is incorporated into it.

Annual General Meeting

The 2021 Annual General Meeting (AGM) will be held on 23 September. Full details of the resolutions proposed to shareholders, and explanatory notes in respect of these resolutions, can be found in the notice of AGM, a copy of which can be found on the SES Water website. At the 2021 AGM, resolutions will be proposed, amongst other matters, to receive the Annual Report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint PwC as statutory auditor.

By Order of the Board

Paul Kerr
Chief Financial Officer & Company Secretary

Redhill, Surrey
2 July 2021
Company number 02447875

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2021 (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2021; Profit and loss, Comprehensive income, Statement of changes in equity and Cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the audit committee.

Basis for opinion

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

Independence

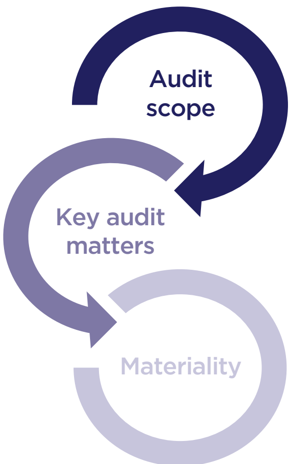
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

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

Our audit approach

Overview



- As the Company is a single entity and not a Group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity

- Assessment of recoverability of household trade debtors
- Accuracy of measured income accrual
- COVID-19 impact on financial reporting

- Overall materiality: £392,500 (2020: £475,000) based on approximately 5% of average profit before income tax from continuing operations of the past three years.
- Performance materiality: £294,375

Independent auditors' report

Continued

The scope of our audit

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

Key audit matters

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

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

Accuracy of measured income accrual is a new Key audit matter this year. Assessment of cost capitalisation and classification of Assets under Construction (AUC), and recognition of Developer Services income , which were key audit matters last year, are no longer included because of much lesser significance of these matters in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Assessment of recoverability of household trade debtors Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £8.3m as at 31 March 2021 (2020: £5.7m), refer to Note 16 of the financial statements. The provision for household customers is derived by taking an average of two years' of historical cash collection rates and also assuming that debtors are unrecoverable after a period of three years. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. The assessment of recoverability of trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	Our procedures included: – Auditing the model used to calculate the provision by checking the calculation logic and validating the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101. – Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. – Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. – Challenging how the impact of COVID-19 on collectability of debtors has been allowed for within the ECL calculation. – Sample testing the underlying data underpinning the historical cash collection rates, and validating the integrity of the aged debt report by sample testing to invoices. – Checking that the ECL was applied to all relevant receivable categories, including accrued income. – We also considered whether there was any Management bias in how the assumptions and estimates had been derived. – Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.

Key audit matter	How our audit addressed the key audit matter
Accuracy of measured income accrual Management have recorded a measured income accrual of £7.1m (2020: £6.5m) (refer to Note 3.1 of the financial statements) relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average of the last three meter reads, and impacts directly on reported revenue and profit. In addition, Management has applied an additional uplift to the accrued income, based on the % increase in the recent billed consumption versus the % increase in recent accrued assumption, to account for the impact of increased consumption due to more household consumers spending more time at home due to COVID-19. This is considered a key audit matter given the range of assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the Company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: (i) agreeing the last billed date against the last invoice billed on a customer level; (ii) performing a recalculation of the number of days since the last billed date to year-end; (iii) testing the applicable tariff against the last bill for that customer; and (iv) recalculating the daily average consumption rate based on the last three meter readings, comparing the recalculated average against the detailed listing. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2021. We challenged Management on the uplift applied to accrued income to assess the reasonableness of the methodology applied and tested the consumption data by vouching a sample of bills from the consumption reports, and recalculated the % uplift to accrued income to allow for the increased consumption driven by COVID-19. Our results: We found Management's estimation of the measured income accrual to be acceptable.
COVID-19 impact on financial reporting Management's assessment of the impact of the COVID-19 pandemic on the Company as a whole is set out in the Strategic report and the Audit Committee report. In terms of the impact on the financial statements, key considerations have been in relation to the following areas: Recoverability of trade debtors, estimation relating to accrued revenue and going concern. This included performing stress testing scenarios to determine the potential impact of COVID-19 on the Company's liquidity, covenant compliance and also on recoverability of debtors. This is considered a key audit matter given the potentially pervasive impact of COVID-19 on aspects of financial reporting, in particular the derivation of key estimates that involve forward looking information.	For our audit response on recoverability of debtors, refer to the Key audit matter above on 'assessment of recoverability of household trade debtors'. For our audit response on estimation relating to accrued income, refer to the Key audit matter above on 'accuracy of measured income accrual'. For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below. We reviewed Management's disclosures in the financial statements in relation to COVID-19 where relevant and found them to be appropriate. Our results: We found Management's assessment of the impact of the COVID-19 pandemic on the Company's financial reporting to be acceptable.

Independent auditors' report

Continued

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

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

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

Overall Company materiality	£392,500 (2020: £475,000).
How we determined it	Approximately 5% of average profit before tax from continuing operations of the past 3 years
Rationale for benchmark applied	Underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Company. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business. As a result of the significant decline in profit before income tax in 2021 due to the impact of COVID-19 we have used a three year average profit before income tax benchmark compared to a single year benchmark in 2020.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £294,375 for the Company financial statements.

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

We agreed with the audit committee that we would report to them misstatements identified during our audit above £19,625 (2020: £23,750) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Testing the mathematical integrity of the cash flow forecasts and reconciling these to Board approved budgets;
- Identifying the key assumptions applied, which we determined to be revenue, costs and capital expenditure. We evaluated these key assumptions by:
    - Revenue: Considering the feasibility of forecasted revenue to historical performance;
    - Costs: Comparing the forecasted costs to historical actuals and made enquiries to understand the driver of any significant variations;
    - Capital expenditure: Considering the capital expenditure forecast by reference to the different projects in Management's plan, and also compared the forecast to prior period expenditure;
    - Downside scenario: Assessing the severe but plausible downside assumptions to stress test the model and considering the impact on the liquidity headroom and forecast covenant compliance;
    - Mitigating actions: Assessing the reasonableness of Management's planned or potential mitigating actions to reduce capital expenditure or other cash outflows based on historical execution and feasibility.
- Reviewing the debt agreements to confirm the terms and conditions, including the nature of and calculation of the covenants, and checking that the covenants were consistent with those used in Management's going concern assessment;

- Agreeing all borrowings as at 31 March 2021 to third-party confirmations and considering the Company's available financing and maturity profile
- Testing the mathematical accuracy of the covenant calculations based on the Company's forecast. This included checking that the covenant compliance remained throughout the assessment period after considering the mitigating actions under Management's control.

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Corporate governance statement

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

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

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

Independent auditors' report

Continued

- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of Management's control to prevent and detect irregularities;
- Challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors and accuracy of the measured income accrual;

- Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 March 2020 to 31 March 2021.

Other voluntary reporting

Directors' remuneration

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

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

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Crawley

2 July 2021

Financial statements

Profit and loss for year ended 31 March

	Note	2021 £000	2020 £000
Revenue	5	**65,819**	69,822
Operating costs	6	**(54,320)**	(47,751)
Other operating income	7	**2,202**	119
Net impairment losses on financial and contract assets	16	**(2,589)**	(1,760)
Operating profit		**11,112**	20,430
Finance income	9	**706**	444
Finance costs	9	**(7,950)**	(10,201)
Finance costs – net		**(7,244)**	(9,757)
Profit before income tax		**3,868**	10,673
Income tax expenses	10	**(236)**	(6,028)
Profit for the financial year		**3,632**	4,645

Comprehensive income for the year ended 31 March

	Note	2021 £000	2020 £000
Profit for the year		**3,632**	4,645
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Actuarial (loss)/ gain on pension scheme	20	**(7,184)**	10,379
Movement on deferred tax relating to pension scheme	19	**1,365**	(1,999)
Total comprehensive (loss)/income for the year		**(2,187)**	13,025

Balance sheet as at 31 March

	Note	2021 £000	2020 £000
ASSETS			
Non-current assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**7,204**	4,162
Property, plant and equipment	12	**346,407**	334,368
Right-of-use assets	12	**268**	175
Pension asset	20	**20,476**	27,356
		377,442	369,148
Current assets			
Inventories	14	**226**	308
Trade and other receivables	15	**21,447**	17,398
Contract assets		**4,696**	4,390
Cash and cash equivalents	25	**25,601**	25,630
		51,970	47,726
Total assets		**429,412**	416,874
LIABILITIES			
Non-current liabilities			
Borrowings	18	**(212,232)**	(196,041)
Lease liabilities	13	**(192)**	(132)
Provisions	19	**(41,561)**	(42,534)
Pension deficit	20	**(1,006)**	(994)
		(254,991)	(239,701)
Current liabilities			
Trade and other payables	17	**(31,030)**	(28,326)
Contract liabilities		**(9,306)**	(7,653)
Lease liabilities	13	**(85)**	(38)
Provisions	19	**–**	(59)
		(40,421)	(36,076)
Total liabilities		**(295,412)**	(275,777)
Net assets		**134,000**	141,097
EQUITY			
Called up share capital	21	**51,489**	51,489
Profit and loss account		**82,511**	89,608
Total equity		**134,000**	141,097

The financial statements on pages 114 to 143 were approved by the Board of Directors on 2 July 2021 and signed on its behalf by

Jeremy Pelczer,
Chairman

Paul Kerr,
Chief Financial Officer

Company registered number: 02447875.
Registered in England and Wales.

Financial statements

Continued

Statement of changes in equity for the year ended 31 March 2021

	Note	Called up share capital £000	Profit and loss account £000	**Total equity £000**
Balance at 1 April 2019		51,489	83,283	**134,772**
Profit for the year		–	4,645	**4,645**
Actuarial gains on pensions scheme	20	–	10,379	**10,379**
Movement on deferred tax relating to pensions scheme	19	–	(1,999)	**(1,999)**
Total comprehensive income for the year		–	13,025	**13,025**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(6,700)	**(6,700)**
Transactions with owners recognised directly in equity		–	(6,700)	**(6,700)**
Balance at 31 March 2020		51,489	89,608	**141,097**
Profit for the year		–	3,632	**3,632**
Actuarial (losses) on pensions scheme	20	–	(7,184)	**(7,184)**
Movement on deferred tax relating to pension scheme	19	–	1,365	**1,365**
Total comprehensive income for the year		–	(2,187)	**(2,187)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(4,910)	**(4,910)**
Transactions with owners recognised directly in equity		–	(4,910)	**(4,910)**
Balance at 31 March 2021		51,489	82,511	**134,000**

Cash flow statement

Year ended 31 March	2021 £000	2020 £000
Profit for the year	**3,632**	4,645
Adjustments for:		
Finance income	**(706)**	(444)
Finance costs	**7,950**	10,201
Proceeds from insurance claims	**(1,675)**	–
Depreciation of property, plant and equipment	**10,877**	9,797
Depreciation of right-of-use assets	**50**	27
Amortisation of intangible assets	**363**	401
Gain on disposal of property, plant and equipment	**(527)**	(119)
Decrease in inventories	**82**	109
Increase in trade and other receivables	**(4,137)**	(553)
Increase in trade and other payables	**4,415**	5,001
Increase in amounts due to related companies	**902**	3,385
Income tax expense	**236**	6,028
Interest paid	**(5,182)**	(5,143)
Income taxes paid	**(1,332)**	(1,636)
Net cash generated by operating activities	**14,948**	31,699
Investing activities		
Proceeds from insurance claims	**1,675**	–
Purchase of property, plant and equipment	**(22,547)**	(32,235)
Purchase of right-of-use assets	**(50)**	(38)
Purchase of intangible assets	**(3,405)**	(3,196)
Proceeds from sale of property, plant and equipment	**554**	231
Interest received	**706**	94
Net cash from investing activities	**(23,067)**	(35,144)
Financing activities		
Net proceeds of loan	**13,000**	17,500
Dividends paid	**(4,910)**	(6,700)
Net cash from financing activities	**8,090**	10,800
Net (decrease)/increase in cash and cash equivalents	**(29)**	7,355
Net cash and cash equivalents at the beginning of the year	**25,630**	18,275
Net cash and cash equivalents at the end of the year	**25,601**	25,630

Notes to the financial statements

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

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

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

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

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

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

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

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - Paragraph 79(a)(iv) of IAS 1
  - Paragraph 73(e) of IAS 16, 'Property, plant and equipment'
  - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS)
  - 38B-D (additional comparative information)
  - 40A (requirements for a third balance sheet)
  - 111 (statement of cash flows information)
  - 134-136 (capital management disclosures)
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements)
  - 113(a) (separate sources of revenue)
  - 115 (disaggregated of revenue)
  - 118 (explanation of changes in contract assets and liabilities)
  - 120 to 121 (transaction price allocated to the remaining performance obligations)
  - 129 (practical expedients)

2.1.1 Going concern
The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create volatility in demand for water.

No repayments of the Company's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of COVID-19 on customers' ability to pay, were assessed against the long-dated bond financial covenants. The Company complied with such covenants under base case and downside scenarios, using a number of mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

The Directors, having considered the financial position of the Company, have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For going concern the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements
There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have a material impact on the Company's financial statements.

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

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

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

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

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

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

- **Land**

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

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

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

  The maintenance of a mains pipe often entails an element of replacement. Provided the mending of a burst main is limited to the replacement of no more than one length of pipe, then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

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

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

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

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

Notes to the financial statements

Continued

2. Significant accounting policies continued

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which is incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

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

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

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in IAS23 'Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs:

- **The project needs to go on for longer than a year**
  Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

- **The project must be more than £0.3m of a £30m capital programme per year**
  For the asset to be significant enough to be considered a qualifying asset it must cost at least £0.3m (c.1% of our capital programme). Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were drawdown facilities not available.

- **Ongoing programmes in the ordinary course of business are excluded (i.e. metering and directly managed spend such as network maintenance activity)**
  Much of the Company's in the ordinary course of business expenditure qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

- **Must not include developer services capital expenditure as that is separately funded**
  As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

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

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

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

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

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

2.5 Intangible assets

2.5.1 Software costs

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

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

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

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

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

2.5.2 Internally generated intangible assets – Research and development

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

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

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

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

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. Impairment reviews are carried out if there is an indication that impairment may have occurred, or to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is added to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the financial statements

Continued

2.7 Financial liabilities

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

2.8 Financial assets

Financial assets can be classified as all being held at:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI).

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

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

2. Significant accounting policies continued

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

2.8.1 Financial assets at amortised cost

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

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

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

2.9 Impairment of financial assets

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

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

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

2.10 Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Management recognise a provision for obsolete stock as follows:

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

2.11 Trade and other receivables

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

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

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

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

2.12 Cash and cash equivalents

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

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

2.13 Payables

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

2.14 Borrowings

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

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

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

2.15 Borrowing costs

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

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

2.16 Taxation

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

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

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

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

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

2.17 Employee benefits

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

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

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

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

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

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

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

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

2.18 Provisions

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

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

No such provision was required in FY21 or FY20.

Provisions are not recognised for future operating losses.

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

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

2.19 Revenue recognition

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

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

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

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

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

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

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

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

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

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

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

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

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

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

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

2.19.2 Empty properties – household revenue

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

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

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

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

2.19.3 Developer services (appointed income) – other water revenue

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

2.19.3.1 Network extensions

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
Continued

2. Significant Accounting policies continued

2.21 Leases

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

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

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

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

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

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

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

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

2.23 Rounding of amounts
All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

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

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

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

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

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

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

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

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

Unamortised issue costs of £4.4m (2020: £4.9m) are netted against the carrying value of the bond, and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate. The other long-term borrowings are charged at a margin above LIBOR.

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the bond at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

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

As at year ended 31 March	2021 £000	2020 £000
Equity		
Increase	1,139	1,681
Decrease	(1,139)	(1,681)
Profit before tax		
Increase	(1,139)	(1,681)
Decrease	1,139	1,681

2.26.4 Liquidity Risk

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

As at year ended 31 March	2021 £000	2020 £000
Maturities		
Between one and two years	44,000	31,000
Between two and five years	192	132
More than five years	168,232	165,041
	212,424	196,173

The facilities available at the balance sheet date are unsecured, current facilities available to the Company are set out below:

As at year ended 31 March	2021 £000	2020 £000
Expiring		
In less than one year	1,000	1,000
Between one and two years	6,000	4,000
Total	7,000	5,000

3. Critical judgement in applying the entity's accounting policies.

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

3.1 Estimate – unbilled measured income accrual (contract asset)

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

The impact of COVID-19 though, has disrupted normal consumption patterns in 2020-21 resulting in significantly higher short-term household consumption and therefore increasing risk of error associated with this estimate. In order to mitigate this risk management have performed further analysis of consumption patterns throughout the year and compared this to our historic modelling to ensure the model is adjusted to consider the impact of COVID-19 on consumption.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £363k (2020: £328k).

3.2 Judgement – Defined benefit pension scheme

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

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

3.3 Estimate – Provision for doubtful debt

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

In the current year the ongoing impact of the COVID-19 pandemic on the ability for customers (both household and non-household) to pay their bills has been taken into consideration by assessing the current customer collection rates. This has resulted in an additional bad debt provision of £2.6m (2020: £1.8m).

If the bad debt recovery rate was to improve or worsen by 5% for debt between 12 and 36 months the bad debt provision would reduce by £563k (2020: £249k) or increase by £642k (2020: £262k).

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects. Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where the customer has not paid their bills for a period of at least two years. This resulted in derecognising £0.6m of revenue in FY21. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.1m

Note 4 – Segmental information

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

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

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

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

Notes to the financial statements

Continued

Note 5 – Revenue

Year ended 31 March	2021 £000	2020 £000
Unmeasured water revenue (household)	**21,551**	24,768
Measured water revenue (household)	**31,058**	29,566
Total household revenue	**52,609**	54,334
Wholesale revenue from retailers (non-household)	**7,360**	10,862
Other water revenue	**742**	843
Non-water revenue	**2,952**	1,718
Non-appointed income	**2,156**	2,065
Total revenue	**65,819**	69,822

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

During the year ended 31 March 2021 the ratio of water sold to household and non-household customers was impacted by the COVID-19 pandemic. There has been a significant change in consumption patterns across household and non-household customers with more household customers working from home as a result of lockdowns and government guidance. Other industries which would drive sales of Wholesale (non-household) Revenue, such as hospitality, have also been closed. This has meant we have seen an increase in measured household water revenue and a reduction in non-household water revenue. Unmeasured household water is charged at a fixed rate so consumption has no impact on revenue. The fall in revenue is driven by households slowly moving from being on an unmeasured tariff to having a water meter.

Note 6 – Operating Costs

Operating profit is stated after charging:

Year ended 31 March	Note	2021 £000	2020 £000
Wages and Salaries		**11,284**	10,745
Social Security Costs		**1,443**	1,264
Other Pension Costs	20	**1,694**	1,328
Staff costs		**14,421**	13,337
Power		**7,400**	5,712
Raw materials and consumables		**2,886**	3,400
Rates		**3,397**	3,439
Subcontractors		**5,472**	3,349
Insurance		**924**	855
Other operating costs		**6,361**	5,807
Depreciation charge on property, plant and equipment	12	**10,877**	9,766
Depreciation of right-of-use assets	13	**50**	27
Amortisation charge on intangible assets	11	**363**	401
Legal and professional fees (excluding auditor fees)		**1,848**	1,263
Fees payable to the Company's auditor for the audit of the annual financial statements		**250**	248
Fees payable to the Company's auditors and associates for other services:			
– Audit of regulatory accounts		**48**	75
– Other assurance services		**23**	72
Operating costs		**54,320**	47,751

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £2,125,580 (2020: £2,226,155) were capitalised to fixed assets.

Net Operating Costs can be analysed as:

Year ended 31 March	2021 £000	2020 £000
Cost of sales	**36,549**	32,157
Administration expenses	**17,771**	15,594
	54,320	47,751

Note 7 – Other Operating Income

Year ended 31 March	2021 £000	2020 £000
Proceeds from insurance claim	**1,675**	–
Profit on sale of fixed assets	**527**	119
Other Operating Income	**2,202**	119

During the year the Company received £1.6m (2020: £nil) in insurance proceeds, relating to damage at one of its water treatment facilities, which occurred in 2017.

Note 8 – Employees and Directors

The average number of employees in the year was:

Year ended 31 March	2021 number	2020 number
Operations	**152**	159
Retail	**88**	70
Support	**85**	81
Other	**1**	1
Total	**326**	311

Director’ Emoluments

Directors’ emoluments for the year were as follows:

Year ended 31 March	2021 £000	2020 £000
Aggregate Emoluments	**954**	935
Aggregate amounts receivable under long-term incentive schemes	**79**	58
Highest paid director		
The highest paid director’s emoluments were as follows:		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**396**	382

Note 9 – Interest income and expense

Year ended 31 March	2021 £000	2020 £000
Finance income		
Expected return on pension scheme assets	**2,772**	2,821
Interest paid on post-retirement liabilities	**(2,164)**	(2,485)
Other interest receivable	**98**	108
Total Finance Income	**706**	444
Finance expense		
Interest on Index-Linked Bond	**4,700**	4,832
Indexation of Bond	**2,756**	4,575
Bond Fee amortisation	**435**	434
Other Interest expenses	**59**	360
Total Finance Expenses	**7,950**	10,201
Net finance cost	**7,244**	9,757

During the year the Company incurred £8.0m of finance costs (2020: £10.2m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £1.8m fall in indexation costs due to a fall in the current year of the RPI rate.

Notes to the financial statements

Continued

Note 10 – Income Tax Expense

Year ended 31 March	Note	2021 £000	2020 £000
Tax (credit)/expense included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**–**	1,041
Adjustments in respect of prior periods		**(97)**	(78)
Total current tax		**(97)**	963
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**55**	21
Origination and reversal of temporary differences – other		**282**	912
Impact of change in tax rate		**–**	4,184
Adjustments in respect of previous years		**(4)**	(52)
Total deferred tax		**333**	5,065
Tax on profit		**236**	6,028
Tax expense included in other comprehensive income:			
Deferred tax:			
Movement in relation to pension scheme	20	**(1,365)**	1,999
Total tax income included in other comprehensive income		**(1,365)**	1,999

Tax expense for the year is lower (2020: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 £000
Profit before taxation	**3,868**	10,673
Profit multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	**735**	2,028
Effects of:		
Expenses deductible for tax purposes	**(485)**	3
Income not taxable	**(318)**	–
Remeasurement of deferred tax – change in UK tax rate	**–**	4,184
Differences between current and deferred tax rates (fixed assets)	**–**	(8)
Differences between current and deferred tax rates (pensions)	**–**	(49)
Adjustments to tax charge in respect of previous years	**(101)**	(130)
Rolled over gains	**405**	–
Tax charge	**236**	6,028

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2020 tax charge in respect of change in rate (£4.2m) represents the impact of the 17 March 2020 substantively enacted rate remaining at 19%, rather than reducing to 17% as had previously been legislated.

Accordingly, this rate is applicable in the measurements of the deferred tax assets and liabilities at 31 March 2021. Deferred tax has been provided at 19% being the rate at which temporary differences are expected to reverse.

However in March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. The maximum impact on deferred tax balances of the rate increase is estimated to be an increase of £13.1m.

Note 11 – Intangible Assets

	Goodwill £000	Software £000	Work in Progress £000	**Total £000**
Cost:				
At 1 April 2020	19,454	6,191	3,370	**9,561**
Additions	–	–	3,405	**3,405**
Transfer	–	613	(613)	**–**
Disposals	–	–	–	**–**
As at 31 March 2021:	**19,454**	**6,804**	**6,162**	**12,966**
Accumulated amortisation and impairment				
At 1 April 2020	16,367	5,399	–	**5,399**
Amortisation	–	363	–	**363**
Impairment	–	–	–	**–**
Disposals	–	–	–	**–**
As at 31 March 2021	**16,367**	**5,762**	**–**	**5,762**
Net book Value 31 March 2021	**3,087**	**1,042**	**6,162**	**7,204**
Net book Value 31 March 2020	3,087	792	3,370	4,162

The software included in the Company's balance sheet primarily relates to one project – One Serve. This is used to track all our projects from network repairs to large capital projects. The asset is carried at £363k (2020: £nil) and has a remaining amortisation period of five years (2020: nil) on a straight-line basis. There are no other individually material intangible assets in software.

The increase in work in progress in the year primarily relates to capitalised costs of developing new customer billing software, Aputumo, of £2.7m (2020: £1.6m).

Intangible assets amortisation is recorded in operating expenses in the profit and loss.

Note 12 – Property, Plant and Equipment, and Right-Of-Use Assets

	Land £000	Collection reservoir £000	Buildings (inc. boreholes & service reservoirs) £000	Mains network £000	Plant and Machinery (heavy) £000	Motor vehicles £000	Sundry plant £000	Assets under construction £000	**Total £000**	Right-of-use assets £000	**Total £000**
Cost:											
At 1 April 2020	5,088	2,533	129,686	239,368	127,876	3,883	5,317	33,714	**547,465**	202	**202**
Additions	–	–	–	–	–	–	–	22,943	**22,943**	143	**143**
Transfers	–	–	1,789	16,015	7,526	346	1,530	(27,206)	**–**	–	**–**
Disposals	(1)	–	(40)	–	–	(449)	(3)	–	**(493)**	–	**–**
As at 31 March 2021	**5,087**	**2,533**	**131,435**	**255,383**	**135,402**	**3,780**	**6,844**	**29,451**	**569,915**	**345**	**345**
Accumulated amortisation and impairment											
At 1 April 2020	–	422	37,057	94,228	73,985	2,999	4,406	–	**213,097**	27	**27**
Depreciation charge	–	20	2,566	1,852	5,603	353	483	–	**10,877**	50	**50**
Impairment	–	–	–	–	–	–	–	–	**–**	–	**–**
Disposals	–	–	(22)	–	–	(441)	(3)	–	**(466)**	–	**–**
As at 31 March 2021	**–**	**442**	**39,601**	**96,080**	**79,588**	**2,911**	**4,886**	**–**	**223,508**	**77**	**77**
Net book Value 31 March 2021	**5,087**	**2,091**	**91,834**	**159,303**	**55,814**	**869**	**1,958**	**29,451**	**346,407**	**268**	**268**
Net book Value 31 March 2020	5,088	2,111	92,629	145,140	53,891	884	911	33,714	**334,368**	175	**175**

Land comprises freehold land at £5,046k (2020: £5,047k) and long leasehold land at £41k (£2020: £41k).

Notes to the financial statements

Continued

Note 13 – Leases

The company has lease Contracts for Company vehicles, the balances of which are included under 'right-of-use assets' in Note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

The balance sheet shows the following amounts relating to leases:

As at 31 March	2021 £000	2020 £000
Right-of-use assets		
Vehicles	**268**	175
Total	**268**	175
Lease Liabilities		
Current	**85**	38
Non-Current	**192**	132
Total	**277**	170

Additions to the right-of-use assets during the financial year were £143k (2020: £202k).

Amounts recognised in profit and loss:

The profit and loss account shows the following amounts relating to leases:

Year ended 31 March	2021 £000	2020 £000
Depreciation charge of right-of-use assets:		
Vehicles	**50**	27
Interest expense (included in finance cost):		
Vehicles	**4**	3
Total	**54**	30

Other lease information

Year ended 31 March	2021 £000	2020 £000
The total cash outflow for leases	**50**	38

Note 14 – Inventories

As at 31 March	2021 £000	2020 £000
Raw materials and consumables	**226**	308
Total	**226**	308

Inventory is made up critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

Note 15 – Trade and other receivables

As at 31 March	Note	2021 £000	2020 £000
Current:			
Gross trade receivables		**24,923**	18,521
Expected credit loss	16	**(8,304)**	(5,715)
Net trade receivable		**16,619**	12,806
Amounts due from Group undertakings		**536**	1,481
Other receivables		**1,441**	1,916
Current tax asset		**1,430**	–
Prepayments		**1,334**	1,138
Other taxes and social security		**87**	57

	21,447	17,398

Note 16 – Expected Credit losses on financial assets
The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100 per cent against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2021 £000	2020 £000
At 1 April 2020	**5,715**	3,955
Provision for expected credit loss – charged against the profit and loss	**2,589**	1,760
At 31 March 2021	**8,304**	5,715

Ageing debt profile and credit loss provisions:

31 March 2021	< 6m £000	6m-1 year £000	1-2 years £000	2-3 years £000	3 + years £000	**Total £000**
Expected credit loss – Household Metered	16.6%	48.7%	69.6%	86.5%	100.0%	
Outstanding customer debt*	3,663	1,372	1,183	669	1,761	**8,648**
Provision at expected credit loss	(607)	(668)	(823)	(579)	(1,761)	**(4,438)**
Specific provisions against contract assets	(85)	–	–	–	–	**(85)**
Loss allowance	(692)	(668)	(823)	(579)	(1,761)	**(4,523)**
Net outstanding customer debt	2,971	704	360	90	–	**4,125**
Expected credit loss – Household Non Metered	2.1%	2.1%	78.1%	86.7%	100.0%	
Outstanding customer debt*	112	1,644	759	630	1,546	**4,691**
Provision at expected credit loss	(2)	(35)	(593)	(546)	(1,546)	**(2,722)**
Specific provisions for April 2020 unpaid annual bill	–	(500)	–	–	–	**(500)**
Loss allowance	(2)	(535)	(593)	(546)	(1,546)	**(3,222)**
Net outstanding customer debt	110	1,109	166	84	–	**1,469**
Expected credit loss – Other Receivables	13.1%	21.9%	36.5%	68.3%	100.0%	
Carrying amount of trade receivable*	421	286	507	49	223	**1,486**
Provision at expected credit loss	(55)	(63)	(185)	(33)	(223)	**(559)**
Loss allowance	(55)	(63)	(185)	(33)	(223)	**(559)**
Net outstanding customer debt	366	223	322	16	–	**927**
Total loss allowance	(749)	(1,266)	(1,601)	(1,158)	(3,530)	**(8,304)**
Net outstanding customer debt*	3,447	2,036	848	190	–	**6,521**

* To calculate the expected credit loss, the gross debt per Note 15, £24.9m (2020: £18.5m), is adjusted for the calculation. Such adjustments include contract assets which are also subject to an expected credit loss and for balances which do not factor in the calculation at all, such as receivables held on behalf of other utility companies where the company collects debt on their behalf (Note 2.19.4).

Notes to the financial statements

Continued

Note 17 – Trade and other payables

As at 31 March	2021 £000	2020 £000
Trade payables	**1,630**	3,875
Amounts owed to Group undertakings	**1,344**	1,002
Other creditors	**16,974**	10,005
Deposits from developers	**322**	429
Accruals	**10,705**	12,574
Current tax and Group relief payable	**55**	441
Total Current Liabilities	**31,030**	28,326

Note 18 – Loans and other borrowing

As at 31 March	2021 £000	2020 £000
Non-Current:		
2.874% secured index-linked bond 2027-2031	**168,130**	164,939
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long-term bank loans	**44,000**	31,000
Total Non-Current Liabilities	**212,232**	196,041

Amounts falling due after more than five years

	2021 £'000	2020 £'000
Bank loans and overdrafts	**168,232**	165,041
Total Non-Current Liabilities	**168,232**	165,041

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

Fair values

The fair values together with their carrying amounts are shown in the balance as follows

	2021		2020	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
2.874% secured index-linked bond 2027-2031	**168,130**	**230,808**	164,939	230,021

Note 19 – Provisions

	Deferred tax £000	Total £000
At 1 April 2020	42,593	**42,593**
Adjustment in respect of prior years	(4)	**(4)**
Additions to the profit and loss	337	**337**
(Credit) to the statement of other comprehensive income	(1,365)	**(1,365)**
At 31 March 2021	41,561	**41,561**

Deferred tax

As at 31 March	2021 £000	2020 £000
Current deferred tax assets	**–**	–
Current deferred tax liabilities	**–**	59
Carrying amount at year end	**–**	59
Non-current deferred tax assets	**–**	–
Non-current deferred tax liabilities	**41,561**	42,534
Carrying amount at year end	**41,561**	42,534
Total carrying amount at year end	**41,561**	42,593

Deferred tax liabilities

	Accelerated capital allowances £000	Relating to the pension deficit £000	Other £000	**Total £000**
At 1 April 2019	32,910	2,640	(21)	**35,529**
Charged to the profit and loss	4,712	332	21	**5,065**
Credited directly to other comprehensive income	–	1,999	–	**1,999**
At 31 March 2020	37,622	4,971	–	**42,593**
Charged/ (credited) to the profit and loss	280	93	(40)	**333**
Credited directly to other comprehensive income	–	(1,365)	–	**(1,365)**
At 31 March 2021	37,902	3,699	(40)	**41,561**

Note 20 – Post-employment benefits

The Company participates in both a defined contribution scheme ‘Group Personal Pension Plan’ (GPPP) which is available for all employees and a defined benefit scheme ‘the Water Companies Pension Scheme’ (WCPS) for qualifying employees providing retirement benefits on the basis of the member’s final salary.

20.1 Defined Benefit scheme

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the Company and the board of trustees of the fund.

The Company’s own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure, members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g. liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in Bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans’ bond holdings.

(c) Life expectancy

The majority of the plan’s obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan’s liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan’s assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

Guaranteed Minimum Pension (GMP)

On 26 October 2018, a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2020 £400k); this was consulted with the scheme actuary.

Notes to the financial statements

Continued

Note 20 – Post-employment benefits continued

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2019 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

As at 31 March	**2021**	2020
Retail price inflation	**3.50%**	2.90%
Consumer price inflation	**3.00%**	2.20%
Discount rate	**1.90%**	2.30%
Life expectancy of male aged 60 in 2021	**26.7**	28.9
Life expectancy of a male aged 60 in 2046	**28.6**	31.6
Weighted average duration	**15.0**	15.0

Reconciliation of scheme assets and liabilities:

	Assets £000	Liabilities £000	Carrying Amount £000
At 1 April 2020	122,492	(95,136)	27,356
Interest on benefit obligations	–	(2,142)	(2,142)
Actuarial gains/(losses) due to:			
– changes in financial assumptions	–	(14,247)	(14,247)
– changes in demographic assumptions	–	6,412	6,412
– experience adjustments on obligation	–	2,054	2,054
Past service	–	(25)	(25)
Benefits paid	(3,918)	3,918	–
Interest on section assets	2,772	–	2,772
Actual return less interest on plan assets	(1,369)	–	(1,369)
Expenses	(335)	–	(335)
At 31 March 2021	119,642	(99,166)	**20,476**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

As at 31 March	**2021 £000**	2020 £000
Changes in assumptions		
Change in inflation rate (+0.1%)	**1,300**	1,200
Change in inflation rate (-0.1%)	**(1,300)**	(1,200)
Change in discount rate (+0.1%)	**(1,500)**	(1,400)
Change in discount rate (-0.1%)	**1,600**	1,400
Change in life expectancy (+1 year)	**4,700**	4,100
Change in life expectancy (-1 year)	**(4,700)**	(4,100)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

Total cost recognised as an expense in the Profit and Loss

Year ended 31 March	2021 £000 WCPS	2021 £000 Unfunded	2021 £000 Total	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Employer's part of current service cost						
Section credits/(expenses)	335	–	335	(267)	–	(267)
Past service credit	25	–	25	200	–	200
Net interest credit/(charge)	(630)	22	(608)	503	(25)	478
Net credit/(expense) recognised in profit and loss account for pensions schemes	(270)	22	(248)	436	(25)	411

Total cost recognised as an expense in the Other Comprehensive Income

Year ended 31 March	2021 £000 WCPS	2021 £000 Unfunded	2021 £000 Total	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Net actuarial (gains)/losses in the year due to						
Changes in financial assumptions	(14,247)	(153)	(14,400)	7,641	78	7,719
Changes in demographic assumptions	6,412	107	6,519	–	–	–
Experience adjustments on benefit obligations	2,054	12	2,066	1,027	5	1,032
Actual (gain)/loss on Section assets relative to interest on Section assets	(1,369)	–	(1,369)	1,628	–	1,628
(Gain)/loss to recognise outside profit and loss in other comprehensive income	(7,150)	(34)	(7,184)	10,296	83	10,379

Changes in net liabilities recognised in the balance sheet

	2021 £000 WCPS	2021 £000 Unfunded	2021 £000 Total	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Balance sheet asset/(liability) at 1 April 2020	27,356	(994)	26,362	16,624	(1,095)	15,529
Amount recognised in profit and loss	270	(22)	248	436	(25)	411
Amount recognised in other comprehensive income	(7,150)	(34)	(7,184)	10,296	83	10,379
Company contributions paid	–	44	44	–	43	43
Balance sheet asset/(liability) at period end	20,476	(1,006)	19,470	27,356	(994)	26,362

Fair value of plan assets

As at 31 March	2021 £000	2020 £000
Liability driven investments	93,837	94,879
BMO Global Absolute Return Bond Fund	25,243	27,473
Cash	562	140
Total	119,642	122,492

20.2 Defined Contribution Scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Year ended 31 March	2021 £000	2020 £000
Current year contributions*	1,669	1,328

* Charge in the profit and loss account per Note 6 is £1,694k (£2020: £1,328k) which includes a £25k charge (2020: £200k credit) for GMP uplift regarding the defined benefit plan.

Notes to the financial statements
Continued

Note 21 – Called up Share capital
Ordinary shares of 10p each

Allotted and fully paid

As at 31 March	2021 £000	2020 £000
514,894,370 (2020: 514,894,370) ordinary shares of £0.10 each	**51,489**	51,489

All shares rank pari passu in all respects.

Note 22 – Dividends
Dividends paid to immediate parent company

As at 31 March	2021 £000	2020 £000
Ordinary dividend paid in June	**3,008**	3,350
Ordinary dividend paid in December	**–**	3,350
Ordinary dividend paid in February	**1,902**	–
Total Dividends paid	**4,910**	6,700

Dividends can be classified as follows:

As at 31 March	2021 £'000	2020 £'000
Final Dividend for FY19	**–**	3,350
Interim Dividend for FY20	**–**	3,350
Final Dividend for FY20	**3,008**	–
Interim Dividend for FY21	**1,902**	–
Total Dividends paid	**4,910**	6,700

Note 23 – Commitments
The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements.

Year ended 31 March	2021 £000	2020 £000
Contracted capital commitments	**7,800**	9,500

Note 24 – Transactions with related parties
The company had the following transactions with related parties:

Year ended 31 March	Relationship	Net income/ (expenditure)	Description	2021 £000	2020 £000
Related party					
Advanced Minerals Ltd	80% owned group company	Income	Sale of water-treament by products and management charges	**31**	132
Advanced Minerals Ltd	80% owned group company	(Expenditure)	Costs incurred for disposal of certain-by products	**(32)**	(22)
Total				**(1)**	110

The Company had the following balances with related parties:

Year ended 31 March	Relationship	Asset/ (liability)	Description	2021 £000	2020 £000
Related party					
Advanced Minerals Ltd	80% owned group company	Asset	Receivables for sales and management recharges	**221**	275
Advanced Minerals Ltd	80% owned group company	(Liability)	Purchase ledger position from trade	**–**	(5)
Total				**221**	270

Note 25 – Cash and cash equivalents

Within liquid resources there is £5.7m (2020 £:5.5m) of restricted cash relating to the secured index-linked bond.

Note 26 – Events after the reporting period

As disclosed in Note 10 in March 2021 the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. Had the new rate been applied as at 31 March 2021 the maximum impact on deferred tax balances of the rate increase is estimated to be £13.1m.

On 10 June 2021 a dividend of £1.742m was declared in respect of FY21 and paid up to the immediate parent company on 18 June 2021.

Note 27 – Controlling parties

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

Glossary

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

Consultancy, design and production
www.luminous.co.uk

SES Water

66-74 London Road
Redhill
Surrey RH1 1LJ
01737 772000
www.seswater.co.uk

SES Water is a trading name of
Sutton and East Surrey Water Plc

Registered office London Road,
Redhill, Surrey, RH1 1LJ. Registered
in England number 2447875