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.

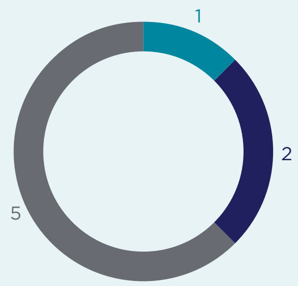
In addition, the introduction of a formal Health, Safety and Wellbeing Committee, chaired by Dave Shemmans, one of our independent non-executive directors, has been timely in the light of the pandemic, and I am pleased to note the recent actions of this Committee to address wellbeing matters for all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

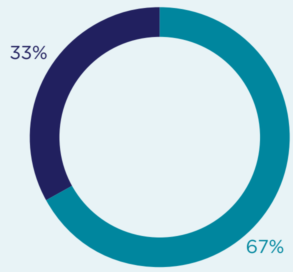
2 July 2021

Board composition



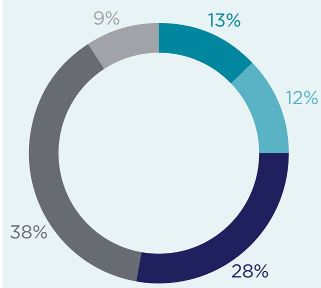
- Chair
- Executive directors
- Non-executive directors (including three independents)

Non-executive director tenure



- More than three years
- Less than three years

How the Board spent its time



- Governance
- Performance
- Deep-dive discussions
- Strategy
- Finance

Board of Directors

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

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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.

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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

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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 (%)

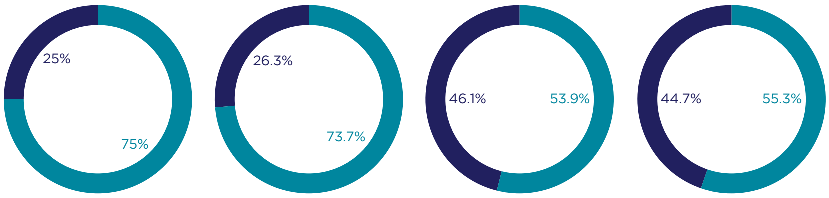
Bonus gap 2020 (%)

Pay quartiles

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

Male Female

Upper quartile | Upper middle quartile | Lower middle quartile | Lower quartile



Gender split by role

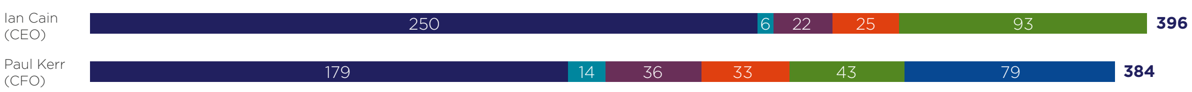
	Female	Male	Total
Director		2	2
Employee	126	196	322
Non-executive director (NED)		4	4
Senior manager	9	11	20
Total	**135**	**213**	**348**

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)

Fixed Benefits Pension Other Benefits Bonus LTIP

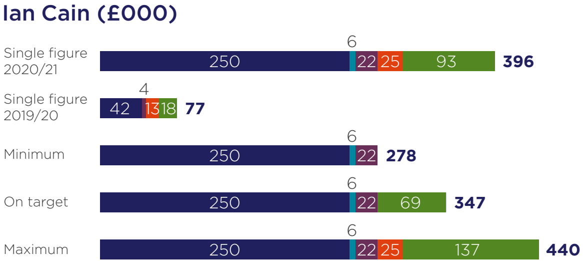


Single total figure of remuneration for executive directors for 2020/21 compared with outcomes

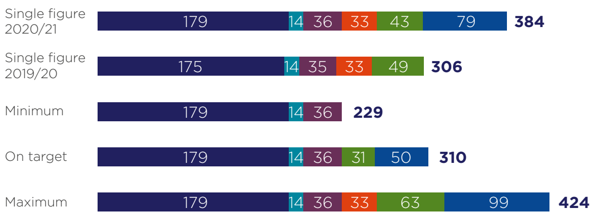
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits, bonus and LTIP. The charts below show the relative split of between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 96. Further 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%**

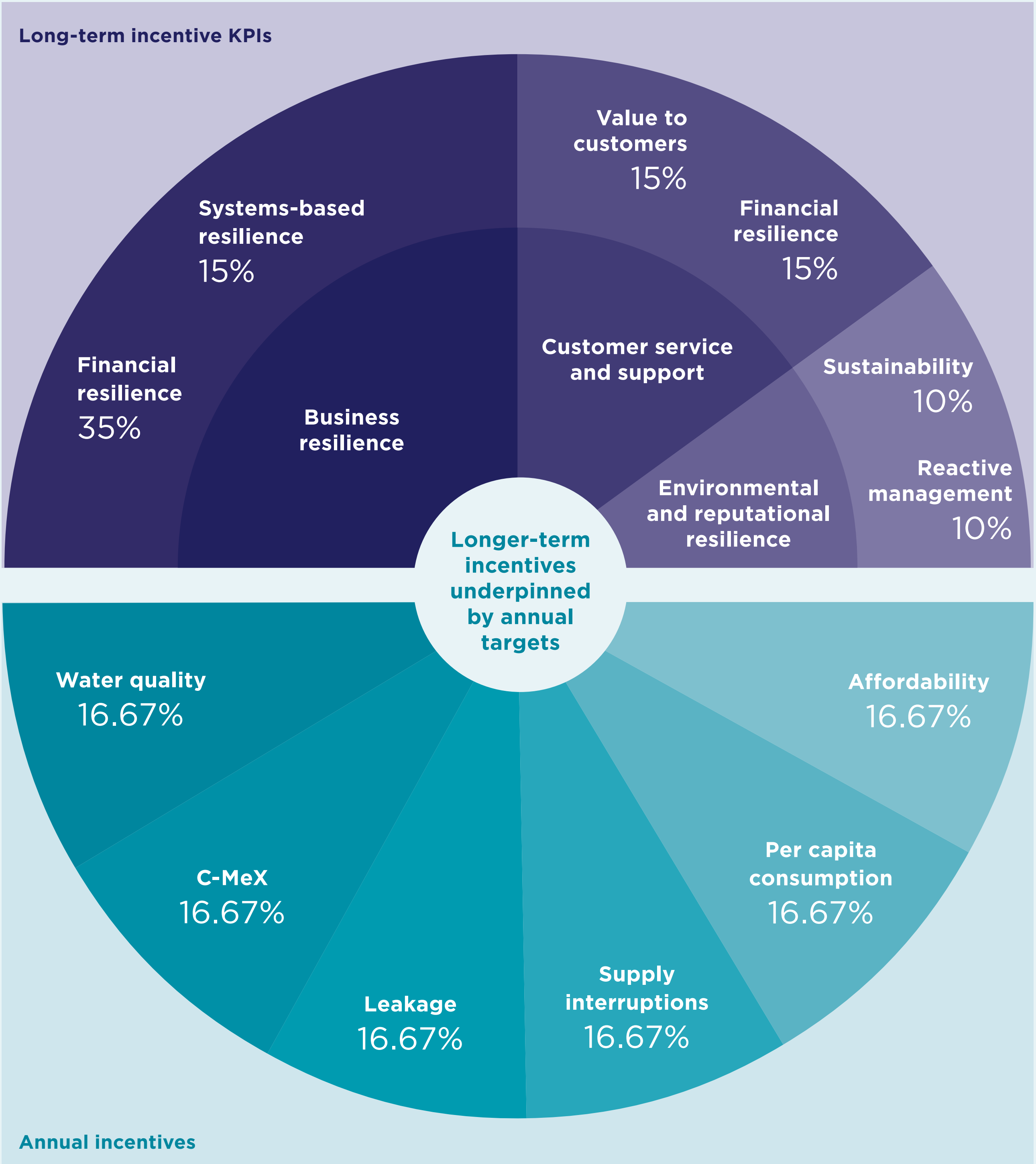
Environmental and reputational resilience

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.