



# At a glance...

50p

On average, our customers currently pay just over 50p a day for their water services.

We are jointly owned by two Japanese companies who have proved to be responsible and committed investors in our business.



We are financed through a combination of shareholder capital and debt.

Like any investors, our shareholders expect a return on the money they put into our business but these dividends are not guaranteed – our Board first considers how well we have delivered for our customers. Our dividends continue to be consistent with the level of return that Ofwat has indicated as reasonable.



We closely monitor the financial resilience of our business in the long-term, ensuring we operate efficiently, invest wisely in capital projects and maintain a financial structure that allows us to manage any unexpected financial 'shocks'.

We have never operated any complex, international financing arrangements and our holding company is based in the UK, paying corporation tax to the UK Government.



Independent non-executive directors make up the biggest group on our Board, providing targeted challenge and support in their areas of expertise.

We are a water-only company that is not involved in any aspects of collecting or treating wastewater or sewage. Our customers' wastewater is managed by either Thames Water or Southern Water.





Welcome to the latest edition of 'Keeping it clear', which we are pleased to provide as an easy-to-follow guide on our finances, company structure and how we make decisions.

This summary explains our bills and clearly sets out how we are organised and governed, so you can gain a good understanding of how we are owned and run, where we spend our money and the dividends and taxes we pay.

2020-21 was a challenging year for all businesses as a result of the COVID-19 pandemic.

I'm pleased to report that we have remained financially resilient, while still being able to deliver for our customers.

In particular, in terms of water bills, it's been important for us to make sure customers have had appropriate support when they needed it the most.

For example, we are well ahead of our 2020/21 target for households benefitting from our Water Support Scheme. Plus, in response to the pandemic, we launched our payment holiday programme 'Breathing Space'.

We trust you find this report informative and helpful. If you have any feedback or questions, please do get in touch through our website

**[www.seswater.co.uk](http://www.seswater.co.uk)**

**Paul Kerr**  
Group Chief Financial Officer



# Customer bills

## We keep our bills low by:

- **Operating efficiently** – between 2020 and 2025 we plan to reduce our costs by 7% by buying goods and services more economically, reducing our energy use and making efficiencies across our operations
- **Financing efficiently** – while as a small company we can't access debt financing as cheaply as the larger water companies, our reduction in debt means lower interest costs to be borne by us and our customers
- **Growth in our customer base** – as more homes are connected to our network the costs will be spread across more customers which helps lower bills in the long-term
- **Providing extra support** – our Water Support Scheme helps those who genuinely can't afford to pay their bill. This discount is funded through a supplement from other customers, as well as money from our shareholders

## COVID-19 financial support

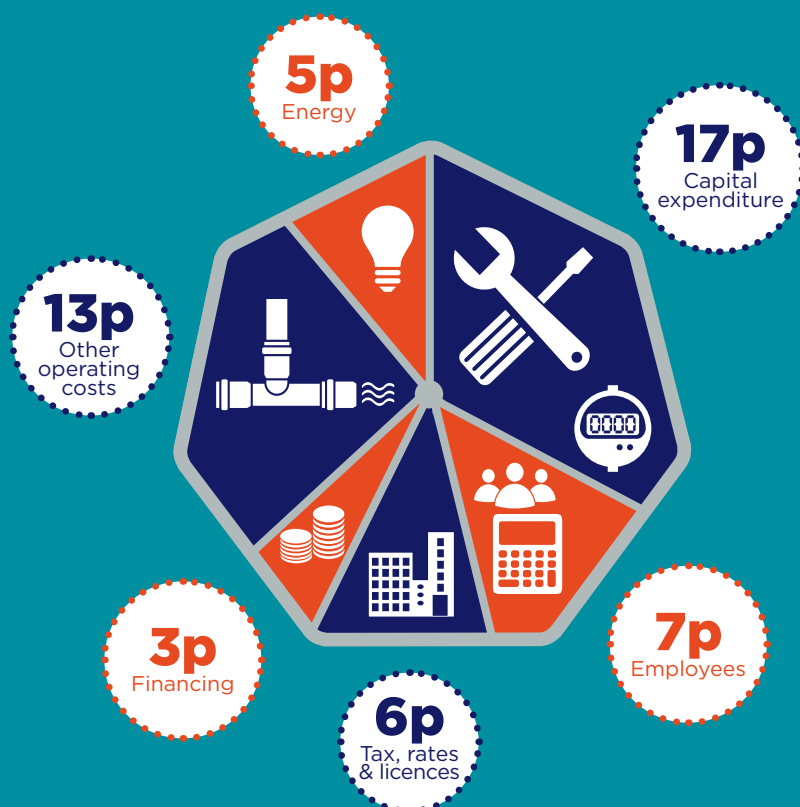
We offer '**Breathing Space**', a payment pause scheme for customers facing life changes that have affected their income and who need time to adjust.

## We also receive income from:

**Water retailers** who pay us for the water supplied to their business customers who they provide billing and customer services to.

**Housing developers** who pay us to lay new pipes and connect new homes to our network.

**Non-appointed income** which is money we receive from other parts of our business not directly related to providing water to our customers, such as payments for issuing wastewater bills on behalf of Thames Water.



Our household customers pay just over **50p per day** for their water services. Because we are a water only company, customers also pay a wastewater charge to either Thames or Southern Water. The average annual water bill in 2020/21 was £185, a 1.4% decrease on the previous year

# Debt, equity and gearing

Like most companies we are financed through a combination of debt and shareholder equity. After deducting the cash we hold, the amount we have borrowed is referred to as our net debt.

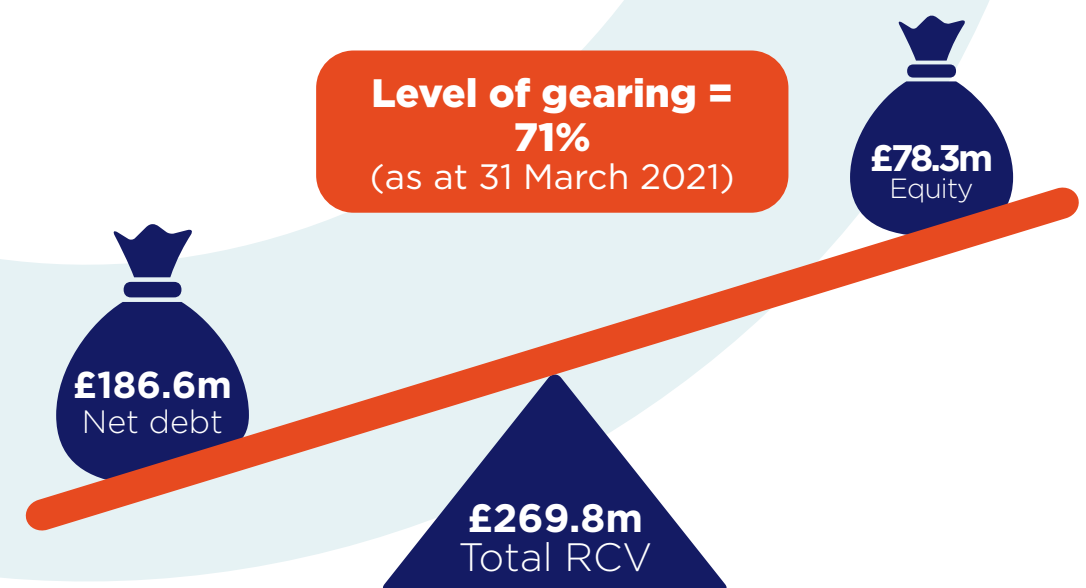
NET DEBT (as at 31 March 2021)		
Retail Prices Index-linked bond	£	168.1m
A revolving credit facility from the bank	£	44.0m
Debentures	£	0.1m
Cash	£	(25.6m)
<b>Net debt</b>	<b>£</b>	<b>186.6m</b>



Net debt combined with shareholder equity equals our Regulated Capital Value (RCV), which is essentially the total value of our business as calculated by our regulator.

A good way to think about this is like a mortgage. The RCV represents the total value of your property (and increases in value in line with improvements and inflation over time), shareholder equity represents the deposit you put down and net debt represents what remains on your mortgage.

The proportion of the RCV that is funded by debt is commonly referred to as our level of gearing, but historically it's not been unusual for gearing ratios to be above 80%. Our gearing at 31 March 2021 was 71% and while we expect this to increase over the next few years, we have committed to maintain our gearing below the levels considered reasonable by Ofwat for long-term financial resilience.



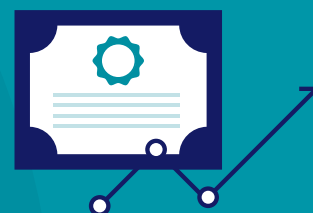
# Our index-linked bond

In 2001, we took out a £100 million Retail Prices Index-linked (RPI) bond which has provided the bedrock for funding our capital investment programme and has meant that in the years since we have not needed to borrow a material amount of additional funds. The bond was issued at a rate of 2.87% interest. Because it is index-linked to RPI it means that both the capital sum and the interest payments will vary accordingly.

The charges associated with the indexation are treated as an interest cost but don't have any immediate impact on cash flow as no actual cash payments are needed until maturity. The fees associated with the issue of the bond are paid back over the life of the bond, plus interest.

In 2020/21 we paid £4.9m of interest on our bond.

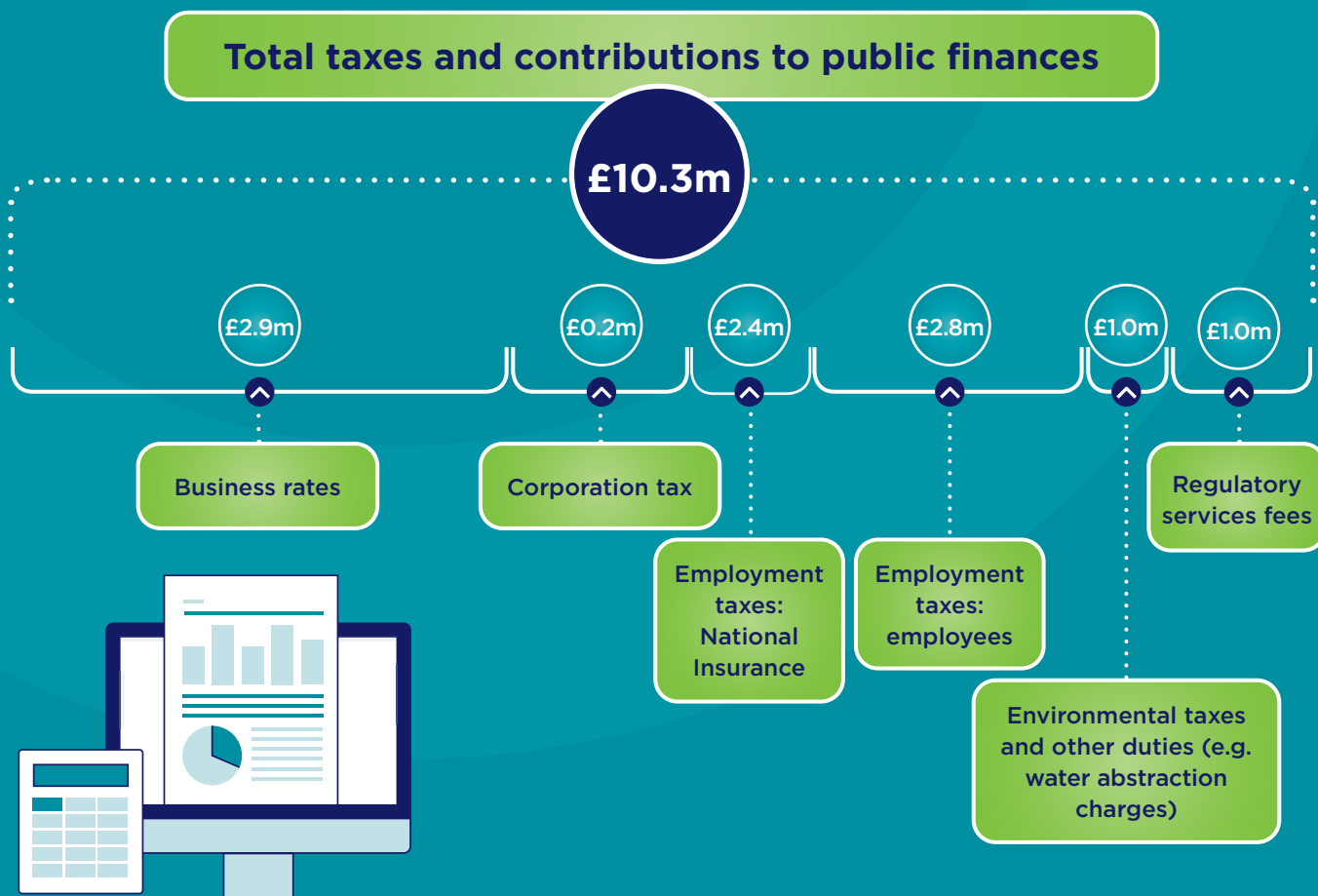
The bond will be repaid between 2027 and 2031. Ahead of this we are already looking at longer term financing strategies to replace it, to ensure our long-term borrowing is secured at the most efficient rate possible.



## Profits and tax

In 2020/21 our profit before tax was £3.9m. This was the amount of profit left after taking into account our operating costs, investment and the interest we paid on our borrowing.

We also paid business rates, PAYE and national insurance contributions which help fund the vital services we all rely on. The below diagram illustrates the taxes and contributions we made to public finances in 2021/22.



# Gender pay

We believe in creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve. Most importantly, we are confident that men and women are paid equally for doing equivalent jobs, regardless of gender.



Our mean gender pay gap of 12.3% for 2021 exists because we have fewer women in senior roles and jobs in the utilities industry have historically been predominantly male occupations. Men have worked for the Company for many years and moved up the hierarchy. Our 2020 pay gap was 15.1%.

We are addressing our pay gap and we are actively seeking to diversify our workforce. Some of the actions we are taking are:

- Creating a Company Diversity and Inclusion group
- Providing unconscious bias training for all members of staff
- Giving managers recruitment training
- Making sure our job adverts attract a wide range of people with the help of specialist copy writers

These actions, together with new recruitment processes, form part of our plan developing to help increase representation of women and other under-represented groups, at all levels, within SES Water.

# Financial resilience and dividends

A key component for our Company is how we remain financially resilient and pay responsible dividends. While this is always a point regularly reviewed by management and the Board, the recent economic pressures that have arisen from COVID-19 have brought this matter into sharper focus.

From our Company's standpoint, we have implemented several initiatives over the last year to ensure we remain financially resilient. This has included ensuring access to increased debt facilities and increased monitoring of operational and capital expenditure to ensure effective and efficient spend.

In addition, in the last six months we commenced a series of financing-related activities to both continue to enhance our financial resilience and address our funding requirements for the rest of this AMP. This has included removing certain pre-funding requirements associated with our index-linked bond ahead of required repayments commencing 2027. This has been economically beneficial for the Company and also improved our ability to access further debt funding if required. In addition, we are in the process of raising the remaining debt needed to fund our capital programme through to 2025, in line with our AMP 7 Business Plan.

Finally, we have carefully adhered to our policy on dividend payments, which is published on our website. This ensures appropriate consideration is given to several factors before a dividend is paid, including overall level of service delivered to customers and importantly that any payments do not cause significant harm to the Company's financial resilience or credit rating.





# Our ownership

We are jointly owned by Osaka Gas and Sumitomo Corporation. Both are Japanese companies that run UK-based operations, and each hold a 50% share in our ultimate UK holding company Sumisho Osaka Gas Water UK Limited.

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

In our case this enables Osaka Gas and Sumitomo Corporation to jointly own East Surrey Holdings Limited. It is the holding company for the trading companies of the group. A separate holding company, SESW Holding Company Limited, exists to

control the funding associated with SES Water and protect the interests of bond holders.

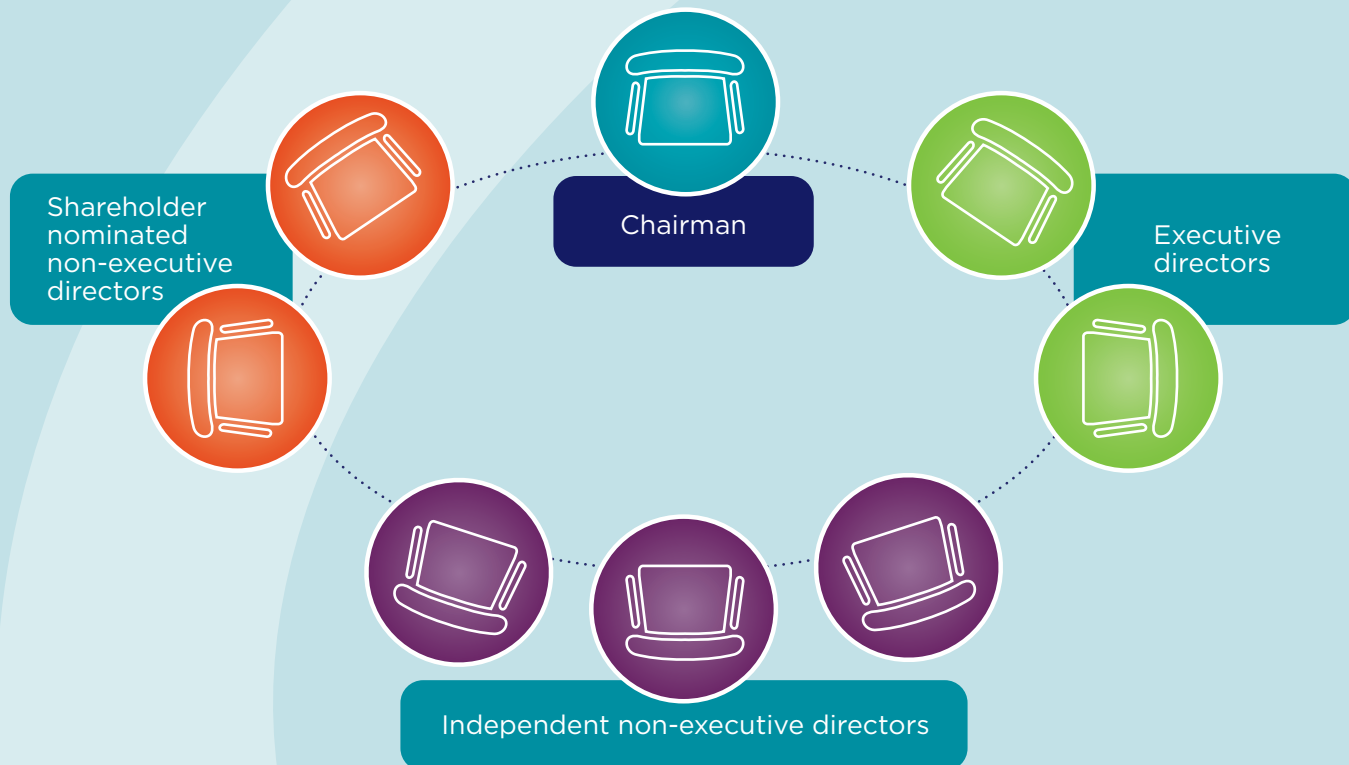
The diagram below shows our ownership structure. All companies apart from those based in Japan are subject to UK tax laws. This has been the case since 2013 and we have not operated any complex, off-shore financing arrangements at any time during this period.





# Our Board

Our Board is made up of executive directors from SES Water, non-executive directors representing our shareholders and independent non-executive directors. It is led by a Chairman and is responsible for making decisions affecting the Company.



Our Board operates six main committees, each chaired by an independent non-executive director:

**Audit Committee** – responsible for making sure we follow robust and effective processes for financial and regulatory reporting, internal controls and risk management.

**Remuneration Committee** – responsible for our remuneration policy and its application, including levels of executive pay and the targets that are set as part of the performance-related employee bonus.

**Nomination Committee** – responsible for making sure the Board size, structure and membership is reviewed, succession planning for Board members and senior managers and reviewing Board performance.

**Governance Committee** – covers a broad range of governance requirements in the business, including adherence to Ofwat's Board Leadership, Governance and Transparency objectives incorporated into the Company's licence.

**Energy Strategy Committee** – considers various aspects of the Company's energy policies, including key initiatives to achieve net zero carbon by 2030.

**Health, Safety and Wellbeing Committee** – responsible for ensuring the Company is fulfilling its legal and moral duties in creating and maintaining an appropriate culture, system and processes to manage its health, safety and wellbeing obligations.

# Committed to enhancing our Board leadership, transparency and governance



Ensuring we continue the high level of interaction amongst our independent non-executive directors, managers and stakeholders so that all views can be understood and represented.

Appointing a designated independent non-executive director to work with our CEO on engagement with our workforce and help increase employee input through our Joint Negotiating and Consultative Committee.



Inviting the chairs of our Customer and Environmental Scrutiny Panels to a Board meeting each year.

Publishing this document every year to explain our finances and governance.



Inviting external representatives to attend our Board meetings, including from Consumer Council for Water and the Drinking Water Inspectorate, where appropriate.

Reviewing our executive pay policy so it gives appropriate weight to performance for customers.



Using an independent facilitator to review Board effectiveness.

Explaining how we have reached decisions on the level of dividends, taking into account the delivery of our obligations and commitments to customers and other stakeholders.



Publishing summary Board minutes.

Our Environmental Scrutiny Panel continues to help us make decisions with an environmental focus and ensures we play a role in enhancing the environment through our investment programme.



To follow our performance against our annual targets and find out more details about the work of our Board you can read our Annual Report on our website.

# What the words mean

## **Fixed assets**

Physical items used in running our business that we continuously invest in (called capital investment), such as our pipe network or reservoirs.

## **Bond**

A type of long-term borrowing.

## **Corporation tax**

A tax on a company's profits before dividends are paid to shareholders.

## **Debt**

An amount of money that is borrowed by one party from another.

## **Dividends**

Money that is given back to our shareholders in return for their investment.

## **Dividend yield**

How much is paid out in dividends each year in relation to how much shareholders have put in.

## **Equity**

Money from shareholders that is invested in our Company.

## **Gearing**

Shows the balance between money we receive from our shareholders compared to lenders like banks.

## **Inflation**

The rate at which the general level of prices for goods and services is rising. It is commonly measured by the Consumer Price Index (CPI) or the Consumer Price Index including owner occupiers' housing costs (CPIH).

## **Interest**

Money that is paid regularly at a particular rate on debt.

## **Operating costs**

The money we pay out to run our Company, such as wages, maintenance and electricity.

## **Profit**

The difference between the money we receive, mainly from customer bills, and the money we spend on running and financing our Company.

## **Regulated Capital Value (RCV)**

The total value of our Company calculated as required by our regulator Ofwat.

## **Retail Prices Index (RPI)**

A measure of inflation published monthly.

## **Shareholders**

Our owners who have shares in our Company.

## **Turnover**

Another word for sales or income during a specific time period.

