SES WATER

All life depends on water...

Annual Report
2019

Who we are

SES Water supplies 160 million litres of clean water each day to 712,000 people in east Surrey and parts of West Sussex, west Kent and south London.

Our values

- Service
- Commitment
- Innovation
- Integrity
- Collaboration
- Compassion

2019 highlights

- Despite challenges like the hottest summer on record, we met the majority of our annual performance commitments, including our leakage target for the 20th successive year
- Our water continues to be of the highest quality and we made good progress towards ensuring every customer can be supplied by more than one treatment works
- We have made significant capital investment, including the completion of our major refurbishment of Woodmansterne Treatment Works
- We moved to using 100% renewable electricity, installed more solar panels and electric vehicles joined our fleet
- Work started on a brand new website and customer billing system
- Our Business Plan for 2020 to 2025 – developed in partnership with our customers and including several industry leading measures – was submitted to Ofwat
- We significantly reduced our gearing level to achieve a better balance between debt and equity

Revenue

£66.8m

2019	**£66.8m**
2018	£65.0m

Profit before tax

£9.7m

2019	**£9.7m**
2018	£10.5m

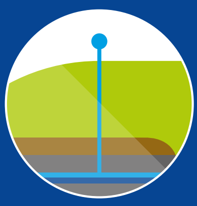
Capital investment

£25.3m

2019	**£25.3m**
2018	£26.0m

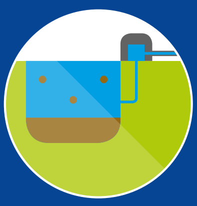
What we do

We collect



85% of our raw water comes from underground sources (groundwater) and 15% from river sources

We clean



To make sure we maintain high quality drinking water for our customers, our water quality is continuously monitored at all our treatment works

We store

We have 31 operational service reservoirs and water towers

Our values in action | See page 04

Industry review | See page 16

Our performance | See page 22

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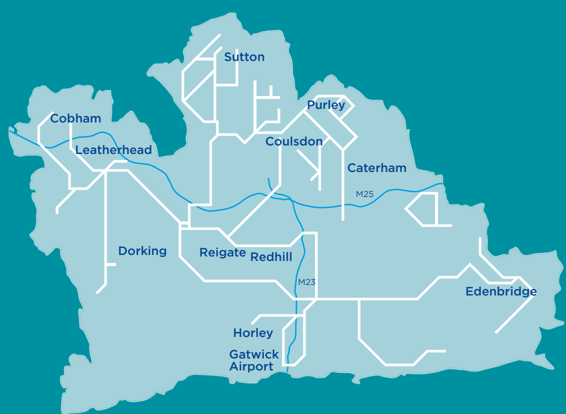
We distribute

24 pumping stations pump water to our customers through 3,500 kilometres of pipes

We sample

Each year we carry out 120,000 tests on around 13,000 samples at every point from source to tap

Where we do it



Read more about what we do at:
seswater.co.uk

Follow us on twitter
@SESWater

…but did you know the average person thinks about their water service for less than ten minutes a year? That's a problem for the world's most-consumed resource.

In the south east there is less rainfall per person than in Morocco. By 2080 we expect the population in our supply area to increase by nearly half – that's a million people all needing water for their vital everyday needs. But we cannot make any more. There will always only be the same amount of water on our planet and we can only use about 1% of it. And it's not just people either – the need to conserve water to protect our environment and the wildlife it supports has never been greater.

Our greatest challenges are addressing issues like climate change and embracing opportunities and new technology to secure safe and resilient supplies for our customers now and their grandchildren in the future – all while keeping bills fair and affordable for all.

We hope you enjoy reading about our progress towards this over the last year.

Delivering despite challenges

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Getting ready for the future

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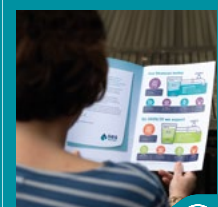
Transparency and governance



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Resilience in the round

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Being a responsible business

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Developing our people to deliver for our customers

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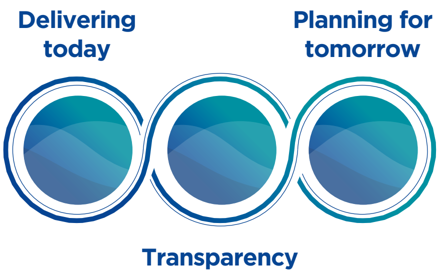
A long-term approach is the key to sustained success

> **We have a strong track record in making the right decisions for the long-term, which means our customers today benefit from a more robust service.**
>
> **Jeremy Pelczer**
> Chairman

Our focus



Each year we produce our Annual Report which summarises our performance and activity for the given time period. However, every report is just a snapshot of progress against our longer term strategy to ensure our customers – both present and future – are supplied with high quality water for many years to come. The key to achieving this is resilience in all its forms – operational, financial and people – and we take our responsibility of ensuring appropriate investment in all these areas over the years very seriously.

Our Business Plan for 2020 to 2025, submitted to our regulator Ofwat in September 2018, sets out the investment we will make to improve our services and deliver more of what matters to our customers as part of a longer term investment programme, which will benefit future generations. For instance, by 2025 we want every single customer to be connected to more than one water treatment works, which means that the risk of interrupted supplies, even if there are issues like power cuts or drought, are significantly reduced. Delivering on this commitment is only possible thanks to our consistent network resilience strategy and accompanying investment that started nearly ten years ago.

We have a strong track record in making the right decisions for the long-term which means our customers today benefit from a more robust service. A great example is that over the last 30 years since privatisation of the sector, we have invested around £220 million in ongoing improvements to our network including a programme to replace aging pipes. This ongoing investment programme served our customers well during the large swings in temperature last year. On 8 July 2018 we saw the greatest demand of the year with an extra 40 million litres of water put into supply which is 35% more than the average summer weekend. Companies across the country battled to keep up with demand and we were no exception with our teams busy working behind the scenes. We were able to move water around our pipe network and make use of more plentiful resources and as a result, there were no significant issues.

This targeted investment approach has provided customer benefits over a number of years too: reductions in leakage, burst rates, water quality failures, taste and discolouration contacts and supply interruptions. On each of these we have been either the best performer or in the upper quartile of the industry for the last few years.

This year has seen other successes too. In 2015 we set ourselves the target of helping 5,000 customers by 2020 through our Water Support Scheme which provides a 50 per cent bill reduction. We achieved that number very quickly and now over 10,000 customers facing financial hardship are benefitting. The additional numbers being helped meant we had a gap in funding which shareholders are bearing, demonstrating their commitment to our priorities too.

Our strong track record on performance was recognised by Ofwat in their initial assessment of our Business Plan. Nevertheless, along with the majority of the industry, our submission achieved 'slow track' status which means there were challenges in some areas, in particular cost efficiency and the need to better evidence how we concluded on some of our investment and expenditure decisions. Whilst we were pleased with the quality of the plan we submitted in September 2018, we have since engaged further with Ofwat and our Customer Scrutiny Panel to address those areas highlighted by Ofwat as worthy of additional information in our re-submission, which we did ahead of the 1 April 2019 re-submission deadline. Later in July 2019 following the publication of this Annual Report, we will hear back from Ofwat with their 'draft determination' of our plan – the service levels we must provide and the cost of customer bills - and their final determination comes in December, ahead of starting to deliver our plan from April 2020.

Planning water resources is a long-term business too. Our Water Resources Management Plan, submitted to the Government (Defra) in September 2018, looks ahead 60 years and considers a range of factors we need to be ready for. The first five years will be delivered through our Business Plan for 2020 to 2025 which forecasts an adequate supply/demand balance without needing to develop new water sources, despite

Did you know?

We supply **160 million litres** of high quality drinking water to homes and business in our area every day

our modelling projecting a 40% increase in the population of our supply area by 2080. This is achieved through a combination of the historic development of a broad range of raw water sources providing choice, new technologies to reduce demand and leakage and finally, being relatively less impacted than other companies by the effects of predicted climate change due to our mix and timing of surface and groundwater abstraction. Despite this, we are still very much committed to minimising the effects of our operations on the environment. The water industry is largely dependent on temperate weather as severe cold causes ground movement that can crack pipes and heatwaves can lead to drought and soaring water use, so we must do all we can to minimise our impact on the environment and protect our water sources. In June 2018, we took a major step forward in drastically reducing our carbon footprint by switching to renewable electricity for all our treatment works, pumping stations and offices. Each day we use enough electricity to power 13,000 homes so this relatively simple change is the equivalent of taking 4,000 cars off the road. Other green initiatives this year included generating more of our own power through installing solar panels at our head office and switching ten of our diesel vans to new electric vehicles.

One aspect of our long-term resilience that will be less visible to our customers is how the Company is financed. In light of concerns from Ofwat about highly geared companies, we proactively set out, with support from our shareholders, to achieve a better balance between our levels of net debt and equity. In fact, despite having been financially resilient for many years, in our Business Plan submission in September 2018 we lowered our regulatory gearing level. Given the importance the regulator attached to all water companies' financial structures we decided not to wait until 2020 to do this either – in August 2018 we converted £12.4 million of preference shares into ordinary shares and in October 2018 we paid back a £30 million bank loan following an issue of ordinary shares, which means we have now reduced our regulatory gearing to c.61%, down from c.77% in March 2018.

Although matters like these are not at the forefront of our customers minds when they think about their water supply, that does not mean that we should not take steps to better explain it to them, along with other corporate subjects like dividends and executive pay. That was the aim of publishing 'Keeping it clear' in November, as we were very keen to have a customer-friendly guide to how we are owned, run and financed. This, and other actions such as adding summary Board minutes to our website, shows our support of Ofwat's legitimacy agenda and we remain committed to increasing the transparency of what we do and how we do it, reflecting the importance of earning public trust and being a respected corporate citizen. I am delighted that 'Keeping it clear' has been met with resounding positive feedback from our customers and other stakeholders, demonstrating their appetite for more information in an understandable format that uses language that is relevant for them. If you would like to read a copy it is available on our website.

Meeting our targets for the consistently high level of service we expect to provide when customers need to contact us has again been a challenge at times this year but we are taking a long-term approach by significantly investing in new technology and this is beginning to bear fruit. The second quarter Service Incentive Mechanism (SIM) survey undertaken for Ofwat saw us achieve our highest ever billing score but we recognise there is always more to do to sustain and improve but the trend in our performance is moving in the right direction. The coming year will see us completely overhaul our digital-based offering to include a brand new billing system and website, giving our customers more tailored information about their water use and management of their own online account in a way that suits them. We stand by our vision to continue to be an outstanding water company delivering service excellence and welcome the introduction of Ofwat's new measure of customer satisfaction, C-MeX, from April 2020.

Our financial performance remained healthy this year. Revenue increased to £66.8 million (2018: £65.0 million). Operating costs increased to £48.4 million (2018: £45.1 million). Operating profits increased by £0.2 million to £20.1 million (2018: £19.9 million). Interest charges decreased by 9% to £11.0 million (2018: £12.1 million) driven by the conversion of preference shares to ordinary shares and paying off our £30 million loan, both part of our de-gearing strategy. Interest receivable and similar charges generated £0.7 million (2018: £0.7 million). Profit before tax fell by £0.8 million to £9.7 million (2018: £10.5 million) with 2018 benefitting from a one-off gain on the sale of the non-household customer accounts. Our accounting tax charge for the year was £2.2 million (2018: £1.1 million).

There has been a change in shareholder nominated non-executive directors on the Board this year. In February 2019 Yoichi Sakai was replaced by Seiji Kitajima who was previously a Board member between 2015 and 2016. In May 2019 Ryuichi Nishida stepped down and was succeeded by Kenji Oida. I am pleased to take this opportunity to thank Yoichi and Ryuichi for their valued contribution and to welcome Seiji and Kenji who between them bring a wealth of experience in water, telecommunications, energy and transport.

In May, Managing director Anthony Ferrar informed the Board of his intention to retire later this year after 11 years of service with the Company. During his time SES Water has gone from strength to strength, evident in our position as a responsible local company, playing an active role in the area we are privileged to serve. On a personal basis I have greatly valued his open and constructive leadership style and the rest of the Board and I wish Anthony a long and happy retirement.

Finally, it is very important I take this opportunity to pay tribute to our hard-working employees whose skill and commitment has been vital throughout the demanding year and with their continued support I am confident in the future too. They have stepped up to meet many challenges and you can read more about their achievements throughout this report. I had the pleasure of joining some of them at our long service awards in December 2018 where they celebrated a combined total of 221 years of dedication – there is no better example of long-term success than that.

Jeremy Pelczer
Chairman
15 July 2019

Delivering despite challenges

Extremes in weather can have a big impact on the water industry and the summer of 2018 saw record temperatures and soaring water consumption across the country –about 35% higher than normal.

The greatest demand was in areas where many people were using sprinklers which can get through 1,000 litres every hour – that's the same amount of water a family of four would use in two days! Despite the unprecedented demand, we continued delivering for our customers – not one of our 712,000 customers lost their supply with only a few experiencing lower pressure than normal during peak times.

Hot, dry weather can also increase leakage with more water being pumped through the network and dry ground shrinking and moving which can crack pipes. Leaks are also much easier to spot on roads and pavements which meant we saw a surge in reports during the heatwave. Reducing wastage by managing leakage is very important to customers and one of our top priorities too. We have one of the lowest leakage rates in the country and we have maintained that this year and met our challenging target again by significantly increasing the resources available to fix them.

40 million

An extra **40 million litres** of water put into supply on 8 July 2018

20 years

We have met our leakage target for the last **20 years**

Some things are better with water

#TapChat is our summer water saving campaign in partnership with environmental campaigning charity Hubbub.

From giving out free water-saving devices at events to large billboard advertising, we encouraged customers to use water wisely and promoted water-saving tips and advice. As a result, half of the people we talked to said they were very likely to change their water habits – but that means we still have plenty more to do to support customers in saving water.

Renee Canter, a Redhill resident and gardener, wrote a blog as part of the campaign:

"Before taking part in the #TapChat campaign, I wasn't aware that I live in a water-stressed area - I'm not even sure I knew what the phrase 'water-stressed' really meant! The campaign has definitely made me more conscious about how I use water at home and in my work. I think it's good that SES Water is raising awareness about the pressures put on our water supply and the ways in which we can all change our habits to use less and preserve more.

I really enjoyed being part of the #TapChat campaign and it was great to have the chance to share my top tips for caring for your garden without using too much water. This is a topic that I'm really passionate about and it was great to link up with the campaign to spread the message far and wide.

I like how the #TapChat campaign uses fun and positive messaging to raise awareness about a serious issue, and how it focuses on simple and easy changes that we can all make to make a positive contribution to our local and the wider environment."

Getting ready for the **future**

It is vital that we take a long-term view when planning our water resources to make sure the decisions we make today are the best ones for tomorrow.

That's why our Water Resources Management Plan (WRMP), submitted to Defra this year, looks 60 years ahead, starting from 2020. The plan sets out how we will continue to supply our customers with a plentiful supply of clean water, now and in the future. Making our service more resilient to both short-term events and long-term trends such as population growth and climate change is at the heart of our plan. To do this we have continued to be heavily focused on lowering demand for water and we are committed to reducing leaks and helping our customers use water more efficiently.

10%

At least **10%** of customers will be on a smart water meter by 2025 and this will increase if technology advances support a larger roll-out

15%

We will reduce leakage by **15%** by 2025

Better for the environment, better off on a meter

In our WRMP we have committed to increase the number of households on a water meter to 90% by 2025, bringing us in line with other companies in the south east.

To help us get there, this year we've been busy installing thousands of meters – over 30 every day – and have started encouraging customers to switch by showing them the cost of their unmetered bill against what they would be charged on a meter, using actual readings from their property. These customers have the choice of opting to switch over to metered charges and for those that don't see a saving, we're offering home efficiency visits to help them bring down their usage.

Paul Rudd, a customer from Caterham, has opted to switch over to a metered bill:

"Making the switch to a water meter has had an immediate impact. We all became much more thoughtful about how we were using water in the house; it made us think about the ways we may be wasting water - like leaving the tap running, the length of our showers and just how much water to put in the kettle.

SES Water managed the switch efficiently - it was simple and straightforward. All it took was a short phone call and that same day, the switch happened with no effort on my part. I've already saved money. In fact, I got a refund which was very welcome! I wish I'd done it a long time ago."

Transparency and governance

The renationalisation debate has made it clear that the water sector needs to do more to demonstrate that private companies can be trusted to provide an essential public service.

We have always placed great emphasis on being a responsible, accessible local company and welcome the questions on the industry's legitimacy. We have already made a number of enhancements to recognise the importance of being open and accountable to both our employees and customers about how our business is run. These have included ensuring our independent non-executive directors continue to make up the single biggest group on our Board and publishing an online summary of this Annual Report in an understandable format. We also intend to go further by making enhancements to key policies such as executive pay and dividends to shareholders in response to Ofwat's 'Putting the sector in balance'.

In our Business Plan for 2020 to 2025 we have also committed to doing more performance reporting, beyond this Annual Report, to ensure we are being as transparent as possible on how we are delivering against our targets. This will include a summary in our re-designed customer bills and further promoting Discover Water, a website which compares the performance of all water companies in England and Wales.

11 members

Our Customer Scrutiny Panel includes **11 members** whose function is to act as a champion for our customers and challenge us in meeting their priorities

3

We have **3 independent non-executive directors** on the Board bringing a wealth of experience from outside the water sector

Keeping it clear

We want all aspects of our finances, governance, structure and decision-making to be as clear as the water we produce, which is why this year we have produced 'Keeping it clear', our first ever customer-friendly guide to how we are owned and financed.

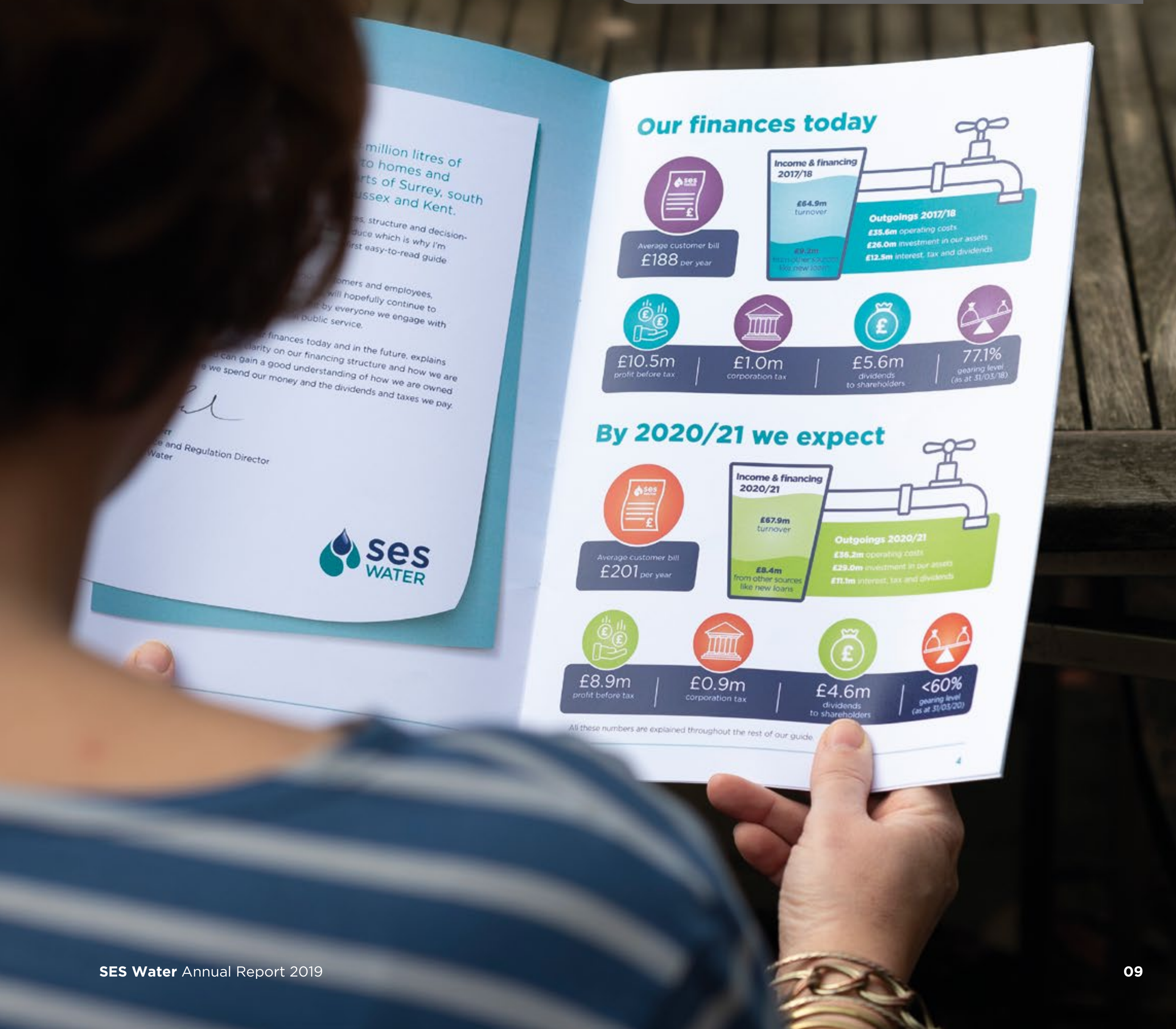
This means we are increasing the transparency of what we do and how we do it, reflecting the importance we place on being a respected corporate citizen. The guide sets out our finances today and in the future, explains our bills and our financing structure so employees and customers understand where we spend our money and the dividends and taxes we pay. We promoted the document through Talk on Water, our online customer community, to gather feedback for future annual iterations and it was met with resounding positive feedback from our customers.

"That's a nice report – easy to read and nicely illustrated with a useful list of financial terms at the beginning."

"It's a useful format with high-level information for people who just want to read the main points and extra detail for those who want to delve more deeply."

"I found the report very clear and interesting – I hadn't realised that the shareholders are Japanese companies."

"Very well set out and informative without getting too bogged down."



Resilience in the round

Providing resilient services has been a key feature of our 150-year history. Rarely do our customers experience breaks in their supply – we have the lowest rate of burst mains in the industry, supply interruptions are also very low and our water has consistently reached the highest quality standards.

This strong performance is the result of far-sighted planning and prioritisation of risk mitigations, targeted and appropriate investment and effective and organised business responses when issues occur.

Strong performance to date does not mean we are complacent. Being operationally resilient is only possible by having financial and corporate resilience too – 'resilience in the round'. We need to be prepared for all threats to service delivery – which could be anything from drought and flooding to skills shortages and cyber-attacks – and understand how they link together. We do this by focusing on eight key areas to manage the array of risks we face, which range from our supply area through to our customers and the environment.

Having a joined-up approach to resilience is important as we're not working to just mitigate a single shock or issue – we need to be resilient to the kind of future uncertainty which is increasingly important in the world we live in today.

61%

We have lowered our gearing to **c.61%** to achieve a better balance between debt and equity which makes us more financially resilient

28

There are 28 risks on our Company risk register

Investing for the future

Our customers expect a high quality, constant and reliable supply of water now and in the years to come. They expect us to be future focused to address climate change and environmental concerns and want us to reduce the risk of drought by investing in infrastructure to secure sustainable supplies.

That's why we have invested £22 million – our largest ever single investment – to significantly redevelop our Woodmansterne Treatment Works to include a new pumping station and more energy-efficient equipment. The work has increased capacity at the site and will give us greater flexibility to move water around our network to protect against drought and the increasing demand from a growing population.

Our long-term aim is to ensure that every property can be supplied by more than one water treatment works by 2025. A key milestone on this journey was the completion in March 2019 of a new 7km pipeline between our Woodmansterne site and the town of Purley. A complex project, the new pipe means fewer customers will be impacted by issues like outages and bursts as we extend and reinforce our network.

Being a **responsible** business

As a small local company deeply embedded in the communities we serve, we are not seen as just a supplier of water and we don't want to just deliver great service for customers – we want to play an active part in improving the areas we are privileged to serve.

That's why this year we joined Business in the Community (BITC), a membership organisation made up of progressive businesses of all sizes who understand that the prosperity of business and society are mutually dependent. Our membership demonstrates our responsible business credentials, our commitment to our local communities and our desire to join with others and be a force for good.

We have also launched a charitable giving fund through the Community Foundation for Surrey which will see us support a number of worthy causes in our supply area, helping to change lives and build stronger communities.

Our customers also quite rightly value the environment and expect us to play a part in making it better, supporting the wildlife that lives within it. They also want us to prepare for future challenges, such as population growth and climate change. We are committed to reducing the impact of our energy intensive operations and are implementing more sustainable ways of pumping, treating and distributing millions of litres of water every single day.

13,000

Each day we use enough electricity to power **13,000** homes

4,000

Switching to renewable energy is the equivalent of taking **4,000** cars off the road

Getting greener

We took a major step forward this year in our environmental commitments by switching to 100% renewable energy – this means we only consume electricity that has a Renewable Energy Guarantee of Origin (REGO) certificate which demonstrates its low carbon credentials and is used to trace the source and destination of every megawatt-hour.

As well as supporting the investment in renewable generation in the UK, we are increasing our own renewable generation from solar at our sites which this year saw us install panels at our Redhill head office, bringing our annual production to 209,225 kilowatt hours, enough to power over 50 houses for a year.

Meet our new vans – Usain Volt and Emma Wattson!

In partnership with renewable electricity supplier Drax Group, we have invested in 16 new charging points and are replacing the first ten of our 100-strong fleet of diesel vans with a five-year trial of electric vehicles – saving 43 tonnes of CO_2 a year!

We are also using telematic systems to monitor usage data so we can understand exactly how to save the most energy, further lowering both our carbon emissions and our costs and paving the way for a broader roll out plan and potential 'vehicle to grid' trials.

Developing our people to deliver for our **customers**

Our people are our greatest asset and an engaged and supported workforce will deliver great service.

Through our people strategy, we are continuing to develop a working environment where people thrive and strive to do a great job and our current Investors in People gold recognition is an independent endorsement of all that we do to lead and support our colleagues to be their best.

From attracting and retaining great talent, to developing the right skills, to recognising strong performance, our people are at the centre of delivering for our customers.

This year we created our 'Employee Engagement Manifesto' which is based on the findings of our annual employee satisfaction survey and covers four key areas: making your working life easier, senior leadership vision and visibility, realistic and effective change implementation and reward and recognition.

Our average length of service demonstrates our employees' commitment and loyalty in an ever-changing market and we know this is a key strength in understanding our business inside out and it's a major contributor to our strong performance. However, we believe we strike a healthy balance between the experience of long-serving staff and the challenge and positive disruption that new employees bring.

We want to continue to create an environment that we all feel proud to be a part of to make our business an even better place to work.

300 employees

We have **300 committed and skilled employees**

9 years

Our average length of service is **9 years**

Rob Baldry

Having been our Networks Operations Manager and a Chartered Engineer for many years, Rob wanted a change of direction in 2015:

"Four years ago, I was given the opportunity to become Water Quality Science Manager, getting back to doing something I really enjoyed in managing a small team and using my technical and data analysis skills. In becoming a Chartered Scientist through the Institute of Water I wanted the opportunity to further my professional development and demonstrate my commitment to my team and the Company. The process has helped me understand how I have developed in my role and how each part of the job has met one of the core competencies required. So what's next? I plan to continue to develop and gain a deeper understanding of water quality processes and maybe even become a professional reviewer for future candidates."

Katie Mason

Starting as one of our many apprentices, Katie is now our Affordability and Priority Services Lead which is the perfect job for her to put her passion for supporting those in vulnerable circumstances to good use. A brand-new role, Katie faced off stiff competition to step up to the challenge and is already making a difference:

"As an apprentice in the Customer Support team I really enjoyed working within different parts of the Company during my business administration course at East Surrey College. It was when I went out and engaged with customers that I realised how much I loved what I was doing. When the role came up it seemed perfect and I just knew I had to try – so I just went for it! Everybody deserves to expect and receive the best service possible. You should not get a poorer service because you're vulnerable physically or mentally, are elderly, have a disability or perhaps because English isn't your first language. I'm very excited about the scope of the role and creating something new that will shape the future of how we engage with customers."

Liam Ahearne

Joining as a water quality sampler straight out of college 11 years ago, Liam is now one of our treatment works managers. He's worked hard to progress and has been supported every step of the way:

"I feel really lucky to be in the position I am today and am grateful for the investment that the Company has made in my future. In 2007, I began studying for a National Vocational Qualification in Water Treatment and as part of this I regularly covered shifts for the plant operators at treatment sites. Three years later I became a plant operator myself, which I did until I was offered the opportunity to temporarily stand in as a treatment works manager to oversee the day-to-day running of Cheam Treatment Works. I am now a substantive manager and over the years have achieved many qualifications, from health and safety certificates to the Institute of Leadership & Management Level 3 and a postgraduate certificate in leadership and management, all paid for by the Company. As I now work to achieve my personal development plan, a director is mentoring me and I feel very positive about the future and how more employees will also be able to progress their careers here like I have."

Responding to a changing environment

The last year has been dominated by the PR19 Business Plan process. Water companies submitted their Business Plans for 2020 to 2025 to Ofwat in September 2018, setting out how they will improve services to customers and the cost of water bills over the period. Each company received an initial assessment of their plans (including a categorisation) at the end of January 2019 - only three companies were fast tracked to receive early draft determinations.

For most companies, including ourselves, further work was needed, and more detailed information and updated plans were re-submitted by the 1 April 2019 deadline. Ofwat has indicated that further work is required by several companies, including us, to address the cost assessment challenges raised as part of the regulatory review process. We will continue to engage with them on this ahead of the final determination in December 2019.

There has been significant activity by Government, regulators and water companies in a number of key areas over the last year to address issues associated with trust and confidence in the sector, resilience to drought and environmental enhancements. Furthermore, the future priorities for economic regulation have come under the spotlight.

Public Interest Commitment

Water companies, including us, have strengthened our commitment to acting in the public interest by working together towards five challenging goals by 2030:

- Triple leakage reduction
- Strive to end water poverty
- Achieve net zero carbon emissions
- Prevent 4 billion plastic bottles ending up as waste
- Achieve 100% commitment to the Social Mobility Pledge

Market drivers

Trust and confidence

"Water companies deliver essential services that are vital for public health, the environment and economy and a well-functioning society. Holding a monopoly licence to provide this service is a privilege. Customers rightly expect companies to take this special responsibility seriously and to be accountable for their actions."

Rachel Fletcher, CEO, Ofwat

Resilient water supplies

"Without further action there is a 1 in 4 chance over the next 30 years that large numbers of households will have their water supply cut off for an extended period because of a severe drought."

Sir John Armitt, Chair, National Infrastructure Commission

Enhancing the environment

"I want water companies to invest in the long-term future of our environment. It is right that the Environment Agency is challenging water companies to go further. This significant investment will help tackle some of the biggest challenges facing the natural environment. It will help to improve our waterways, increase biodiversity and combat non-native invasive species. This will support our goal to leave the environment in a better state for future generations."

Michael Gove, Secretary of State for the Environment

Future of economic regulation

"The UK has a world-class regulatory system which protects the interests of consumers. But it needs to be fit to respond to the challenges of the future to remain cutting-edge. Therefore, the Chancellor announced he will commission the National Infrastructure Commission to carry out an independent study of the telecoms, energy and water regulators. This will ensure they have the ability to encourage investment, promote competition and innovation and meet the needs of consumers in the 21st century."

HM Treasury

Did you know?

18 regional water companies operate in England and Wales

8 provide drinking water only (SES Water included) known as **WoCs**

10 provide drinking water and remove wastewater known as **WaSCs**

What's happened?	What have we done?
Ofwat published its 'Putting the sector in balance' position statement setting out its expectations for Board leadership, transparency and governance. It addressed issues such as dividend policy, executive pay and financial resilience to ensure the right balance is being struck between companies, shareholders and customer interests. There has been increased focus on how the industry operates for the wider public interest given the essential service it provides.	• Reduced our level of gearing (the balance of money we receive from shareholders compared to what we borrow from lenders) from c.77% to c.61% as at 31 March 2019 to increase our financial resilience • Published our 'Keeping it clear' document to explain how we are owned, run and financed • Committed to Ofwat's principles for dividend and executive pay policies in our Business Plan for 2020 to 2025 • Expanded the Corporate governance report in this Annual Report, together with a revised regulatory report which contains a new Board statement requested by Ofwat • Worked with Water UK and our industry colleagues to put the public interest and our role in supporting a healthy and prosperous society at the heart of everything we do through the development of an industry-wide Public Interest Commitment • Signed up to the Energy & Utility Skills Inclusion Commitment to workforce diversity to better reflect the communities we serve
The publication of the National Infrastructure Commission's (NIC) first National Infrastructure Assessment shone a light on what is needed to secure long-term water supplies. This was followed by a direction from Government and industry regulators for companies to strengthen regional water resource planning to identify the strategic water resource infrastructure and demand management activity needed to increase drought resilience. The Environment Agency began the development of a National Framework to support and co-ordinate the water resource planning process and, along with Ofwat and the Drinking Water Inspectorate, committed to form a regulatory alliance to streamline the delivery of water infrastructure projects. The Government consulted on a draft National Policy Statement for major water infrastructure projects and announced its intention to set a national per capita consumption target to cut household water use.	• Committed to halving leakage and reducing demand to below 118 litres per person per day by 2050 in our Business Plan, in line with the NIC's recommendations • Included a programme in our Business Plan to meter 90% of homes in our region by 2025 • Worked as part of Water Resources South East (WRSE) to enhance the role of regional planning through the production of a multi-sector resilience plan • Continued our 15-year plan to install additional water mains to ensure 100% of our customers can be supplied by more than one treatment works
The Environment Agency published the Water Industry National Environment Programme (WINEP) setting out the investment water companies need to make to improve the environment between 2020 and 2025. The Government started work on an Environment Bill which will deliver the aspirations of the 25-year Environment Plan. It included a consultation on how to better manage water in the natural environment.	• Included £1.5 million of investment in our Business Plan to deliver the requirements of WINEP in our region. We've also committed to increasing biodiversity at a number of operational sites • The WRSE regional resilience plan will enhance the environment across the region by leaving more water in the environment and identifying options that will increase natural capital and deliver environmental net-gain • Moved to purchasing only renewable energy for use in our operations and started the replacement of our diesel vehicle fleet with electric vehicles
The Government asked the NIC to conduct a study into regulation of the UK's energy, telecoms and water industries, to ensure the necessary levels of investment and innovation whilst these critical services are kept affordable for everyone. The National Audit Office (NAO) published a report on how well regulators measure and report their performance in protecting the interests of customers which concluded that more needs to be done to give consumers confidence that they are providing value for money and protecting those that need it.	• Continued to commit significant management and Board time to compliance with the regulatory framework • Supported a review of the regulatory framework and in particular changes that will help ensure that the regulatory weight placed on us is proportionate and at the level necessary to protect the interests of those that we serve

A successful local company

We are setting new standards for the industry in areas that are important to our customers.

Anthony Ferrar
Managing director

The Company can trace its origins back to the mid-19th century, when Victorian engineers began to supply water directly to people's homes. We take pride in being a local company with a long heritage and our customers have told us that they value their water being supplied by a small company whose employees have comprehensive knowledge of our supply area. Our size has never held us back – we have a modern outlook to be ready to meet future challenges and we make the most of new opportunities too. In many areas that are important to our customers, such as burst mains and leakage, we are setting new standards for the industry.

The scale and complexity of supplying 160 million litres of drinking water every single day to 712,000 customers is achieved by focusing on frontline delivery which can only be realised with the help of our core support functions. It is a structure we have had for a number of years which has enabled us to meet our customers' increasing expectations and strive forward towards our vision.

Our vision

To be an outstanding water company that delivers service excellence.

INVESTORS IN PEOPLE | Accredited Until 2020

Our Investors in People gold award is a big achievement which recognises the enduring effort that goes into making SES Water a better place to work.

The Institute of Customer Service MEMBER

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

BUSINESS IN THE COMMUNITY The Prince's Responsible Business Network

This year we have joined BITC, demonstrating our commitment to doing the right thing in the areas we serve.

Our values

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

Compassion

Service

Collaboration

Commitment

Integrity

Innovation

Did you know?

Our network is made up of **eight water treatment works**, **24 pumping stations** and **3,500 kilometres of pipes**

Our structure allows us to focus on delivering our two frontline services – wholesale and retail – while keeping our core support functions together and an independent focus on water quality and compliance.

To read more on our performance see page 22

Retail services

Dan Lamb
Head of retail services

Responsible for customer service – including billing, cash collection and answering customer queries.

Key functions
Household account management and billing.

Wholesale services

Tom Kelly
Wholesale director

Responsible for the delivery of water from source to tap – including maintaining a sufficient water supply and reducing leakage.

Key functions
Water resources planning and management, water treatment and distribution, capital programme and liaison with business retailers and developers.

Business support and control

Paul Kerr
Finance and regulation director

Responsible for support functions, corporate governance and ensuring adherence with statutory and regulatory requirements.

Key functions
Finance, HR, economic regulation, IT, communications, procurement, administration, property and facilities.

Quality and compliance

Nicola Houlahan
Quality and compliance director

Responsible for water quality, the externally accredited quality and environment systems and provides independent internal assurance and compliance, including on health and safety.

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

Our transparent group structure

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

Our immediate parent company is SESW Holding Company Limited, established at the time 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.

Except where indicated with (Japan), all companies within this structure are subject to UK corporation tax.

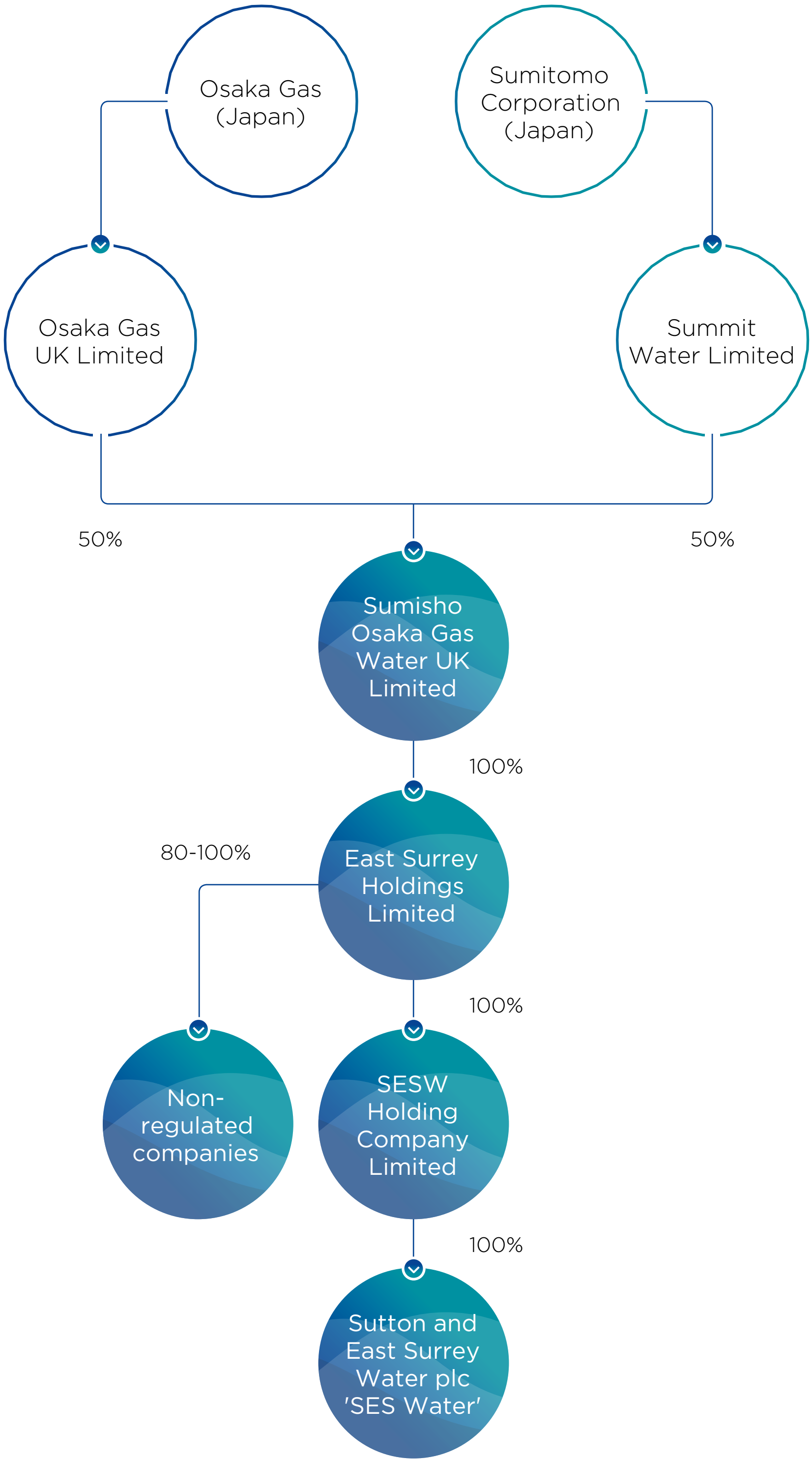
Private ownership

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

We have responsible shareholders who put the interests of our customers first. An example of their commitment is the money they have put into our Water Support Scheme which provides a bill discount to those in eligible circumstances. This has enabled us to significantly increase the number of people benefitting by bridging the gap from the supplement that other customers pay.

In October 2018 our shareholders also invested a further £36 million so we could repay our long-term £30 million bank loan to enable us to lower our gearing.

Like any investors they expect a return on the equity they put in and over time they have taken a fair level of dividend, allowing more money to be reinvested.



In the spotlight

Achieving a key milestone

In September 2018 we submitted our Business Plan for 2020 to 2025 to Ofwat which is built on strong foundations and developed in partnership with our customers.

Our independent non-executive directors remain the largest single group on the Board and provide targeted challenge and support to management in the areas of their particular personal expertise. They played a key governing role in the creation of our plan, which was the culmination of a two-year process.

"The Board has a systematic governance process in place that has enabled it to challenge and satisfy itself that the Business Plan is deliverable and provides the best outcomes for customers at an affordable price. As the senior independent non-executive director and chair of the Audit Committee I have been particularly involved in the external assurance of the plan which was provided by external parties who reviewed the technical and financial aspects of our submission. The Committee also played an active role in reviewing the risks associated with the plan and the corresponding mitigations, as well as assuring that the Company will remain financially resilient in the long-term.

Murray Legg

"SES Water has a strong track record of planning and investing for the long-term and this has provided the bedrock of solid performance over many years. In developing the plan, employees carried out the most comprehensive assessment into the risks we face to date which covered all areas of the business – operational, corporate and financial. I was involved in this work and was impressed with the commitment I saw to ensuring that the Company is able to deliver a service that is not only fit for now but ready for the future too.

Dave Shemmans

"To ensure the plan delivers more of what matters to customers, the starting point was a high-quality programme of engagement to fully understand their views which provided the insight used to develop the pledges in the plan. I reviewed the activity at each stage of the process and was able to call on experts in my own teams who endorsed the innovative techniques used and the robustness of results. I also attended two meetings of the independent Customer Scrutiny Panel who agreed that the Company carried out comprehensive engagement with customers which strongly influenced the plan.

Jon Woods

How we are performing today

In our Business Plan for 2015 to 2020 we made a number of promises to our customers focused around delivering six aims which they told us were most important to them. Each year we report on our progress and this table summarises our performance against each target for this year and the previous year too.

Our overall aim
Continue to be a well-run, respected and successful business.

Aim 1
To provide a reliable and sufficient supply of safe, high quality drinking water.

Aim 2
Offer good value for money and keep bills at a fair and reasonable level.

Aim 3
Increase the resilience of our network to drought, flooding and equipment failure.

Aim 4
Deliver consistently high levels of service.

Aim 5
Reduce our impact on the environment while seeking to make a positive contribution to its quality.

Every year we also produce a useful online summary of our annual performance on our website and you can also compare our performance to other water companies on the Discover Water website.

To read more on our promises to customers see page 24

Measures
Our overall aim
Financial support to charities and the local community
Financial health
Employee satisfaction
Health and safety incidents
Aim 1
Supply interruptions over three hours (average hours per property)
Number of bursts
Overall water quality
Taste, odour and discolouration contacts
Water softening
Security of supply index
Aim 2
Proportion of customers who believe their bill is not good value
Customers on our Water Support Tariff
Bad debt as a percentage of turnover
Aim 3
Water restrictions
Proportion of properties supplied by more than one treatment works
Aim 4
Customer satisfaction with their water service
Service Incentive Mechanism (SIM) score
Number of complaints (per 1,000 properties)
Aim 5
Leakage
Environmental education programme
Customer usage reductions through metering
Greenhouse gas emissions ($kgCO_2eq/Ml$)
Pollution incidents

Did you know?

We supply high quality drinking water to **more than 712,000** people in parts of Surrey, West Sussex, Kent and south London

2019 performance	2018 performance	Target/target limit	Target achieved
£18,839	£13,224	Increase support	✓
Achieved	Achieved	Achieve budget	✓
62 points	61.6 points	>70 points	⊗
4	5	3	⊗
0.268	0.054	0.20	⊗
255	214	290	✓
99.97%	99.98%	100%	⊖ Within regulatory tolerance
388	365	350	⊗
Delivered	On track	Deliver programme	✓
100%	100%	100%	✓
7.8%	9.0%	<15%	✓
10,401	8,150	5,000	✓
1.01%	0.64%	<1%	⊗
0	0	0	✓
56%	36%	56%	✓
91.5%	92.0%	90.0%	✓
80.5 points	78.7 points	87.4 points	⊗
8.0	9.8	6.80	⊗
24.1 Ml/day	24.2 Ml/day	24.1 Ml/day	✓
11,798 people	9,551 people	9,500 people	✓
162.6 litres*	158.8 litres*	157.7 litres*	⊖ Within regulatory tolerance
91	376	525	✓
0	2	0	✓

* Per person per day

Meeting our customer and environmental commitments whatever the weather

> Despite the best and worst of the British weather last year, our customers rightly expect us to be resilient, even in the most testing of circumstances.
>
> **Anthony Ferrar**
> Managing director

The weather, while outside anyone's direct control, is a huge factor in the performance of water companies. 2018 saw extremes with freezing conditions in February followed by the hottest English summer on record. This presented a number of challenges as large swings in temperature affect ground conditions which in turn affect our network of pipes - pivotal to transporting clean and safe water across our supply area. During hot spells, our customers naturally want to enjoy the sunshine and spend more time outside which means water use soars as sprinklers and hosepipes are turned on. Demand is always higher in the summer but in 2018/19 record-breaking volumes of water were put into supply to satisfy the demand.

Despite the best and worst of the British weather last year, our customers rightly expect us to be resilient, even in the most testing of circumstances. I am very pleased that we have continued to meet their expectations in the majority of areas which is due to the skill and commitment of our experienced employees. There are countless examples of individuals going above and beyond to strive to deliver our vision of being an outstanding water company delivering service excellence.

Our promises to customers (see pages 22 to 23 for a full breakdown of our measures and performance)

Our last Business Plan made a number of promises to our customers focused around delivering six aims.

Overall aim – Continue to be a well-run, respected and successful business:
We take our role of being trusted to provide an essential public service very seriously indeed – but we don't just supply water, we want to play an active part in the areas we are privileged to serve. We are a small, local company and are proud to have been deeply embedded in local communities for over 150 years. This year we have donated over £18,000 to local good causes and given over 120 hours of our employees' time through our 'Give-a-Day' scheme which enables individuals to use their skills to help others. This year has also seen us giving our customers more of a say on the organisations we support by installing a charity voting box in a café in Dorking.

The results of this year's annual employee engagement survey, which gives people the opportunity to express their feelings about the Company as an employer, showed promising improvements on the previous year, particularly with regards to the visibility of senior managers and communication. The high response rate of over 70% ensured a representative view across each department and shows the areas to focus on so that our people can be the best they can be.

The health and safety of our employees, contractors and the public is of the utmost importance to us. We comply with all relevant regulations set by the Health and Safety Executive and endeavour for no incidents to occur. However, there have been four lost-time accidents this year, including one which resulted in the employee needing extended time off work so was reported under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013). Our Safety Committee – including nominated representatives from each department – has evolved to include greater employee contribution including a dedicated 'Health and Safety Day' which was very positively received. Highlights included a number of talks and challenges from our suppliers, as well as hearing directly from the police about the dangers of drink and drug driving.

Recognising the importance of mental wellbeing alongside physical health, our 'Aqualibrium' programme has continued to support employees with a range of services from lifestyle questionnaires and a new financial education tool to confidential counselling and Mental Health First Aiders.

In response to recent Ofwat views across the sector with respect to debt levels being carried by all companies, in October 2018 we significantly lowered our debt (or 'gearing') level from c.77% in March 2018 to c.61% at 31 March 2019 to achieve a better balance between the money we receive from our shareholders compared to lenders like banks. An equity injection from our shareholders enabled a £30 million bank loan to be repaid and at the same time £12.4 million of preference shares were converted into ordinary shares so they no longer command a guaranteed high rate of interest. Our financial health is also kept under scrutiny by two independent credit rating agencies – Moody's and Standard and Poor's – and maintaining a public investment grade credit rating contributes to the transparency of our financial resilience. We have maintained a stable rating with both companies for a number of years now and this year was no different, despite the expected impact of the PR19 price review process.

Aim 1 – To provide a reliable and sufficient supply of safe, high quality drinking water:
Planned interruptions to supply are necessary so that we can improve the long-term resilience of our network by replacing ageing pipes. However, our performance in this area this year is largely due to unplanned activity which cannot be predicted, such as burst mains. While we aim for no customers to lose supply, in May 2018 we experienced a significant burst in the Merstham area that impacted around 1,000 customers for longer than the three hour time period that our regulatory target is based on. Historically we have been amongst the best performers in the industry so although this year we have missed our target due to a single, isolated issue, our customers are still much less likely to experience an interruption to their supply compared to elsewhere in the country.

Another area of historic strong performance is the number of burst mains. Again, while our overall goal is to not have any bursts, we did meet our regulatory target this year. There were more than the previous year, again reflecting the challenging weather conditions which puts stress on ground conditions and our pipes, but the still low number reflects the general good health of our network and the work that goes into maintaining it, such as pressure management and sustained investment.

Top quality water is our customers' number one priority so it is pleasing to report achievement of 99.97% for the Overall Drinking Water Quality Index in 2018. We carry out thousands of samples every year and the water leaving our treatment works and service reservoirs achieved 100% compliance on all tests carried out. Our performance reflects only two failures for the lead standard measured at the customer tap from a total of 31,173 tests.

We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water. In 2018 we received 388 contacts – 38 more than the limit set – which means we will incur a penalty from Ofwat of £1,000 per contact for every one over the deadband of 375 – a total of £13,000.

Whilst any penalty from the regulator is disappointing, we have maintained our top three industry ranking for the fourth year in a row and we were also industry leading for taste contacts, something we are still very proud of as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Around 85% of the water we supply comes from underground sources which we then partially soften. In 2015 we started a £22 million investment programme to upgrade our Woodmansterne Treatment Works to supply greater quantities of softened water to meet the needs of a growing population. The project completed on schedule as planned in March 2019 and means we met our commitment of delivering the investment programme.

The security of supply index is a way of monitoring the resilience of our water resources so that they are able to meet customers' demand. We have maintained our index at 100% for both an average dry year and a critical period of peak demand.

Aim 2 – Offer good value for money and keep bills at a fair and reasonable level:
With less than 8% of customers questioned feeling that their water bill is not good value for money, this is well within the target limit of 15%. Our average household bill for 2018/19 increased by £5 – less than the rate of inflation and equating to about 53 pence per day – with money from bills playing a crucial part in funding our ongoing investment programme.

Most customers do not struggle to pay their bills but we recognise that for some people it can be a challenge, even temporarily, so we are very pleased that now over 10,000 eligible customers are in receipt of our Water Support Scheme which provides a 50% discount to those in financial hardship. We pledged to help 5,000 people by 2020 but we reached this level three years ago and continue to welcome more people onto the tariff by increasing our activity to raise awareness of the support we can offer.

More affordable bills for more customers means less bad debt which is the cost of water charges that we are unlikely to be able to collect. We aim to keep this level below 1% of turnover, however this year it is just over this target but is still one of the best collection records in the country.

Aim 3 – Increase the resilience of our network to drought, flooding and equipment failure:
We have had no restrictions on the use of water this year. Like other water companies, we depend on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation. October 2018 – the start of the critical six month 'recharge season' – was dry, with only about half of the average rainfall during the month, however November and December were wetter. There was a dry spell again in January and just under average rainfall levels in February. March was very wet which brought overall winter rainfall to 96% of the long-term average. However, our groundwater resources have remained below average throughout the year which is largely due to the increased demand we experienced during the heatwave last year which significantly depleted resources.

Since 2010 we have been progressing a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 our aim is that every property can be supplied by more than one treatment works which is so important to keeping customers' taps running, particularly during outages and periods of low rainfall. A significant step forward in this ambition this year was the completion of a 7.3 kilometre trunk main between Woodmansterne Treatment Works and the town of Purley, which was a challenging project to deliver on time, largely due to the urban location and resulting traffic management and stakeholder engagement required.

As well as laying new pipes it's very important to maintain the ones we already have so we have renewed nearly 14 kilometres of mains this year, key to minimising bursts, leakage and interruptions to supply.

Aim 4 – Deliver consistently high levels of service:
Satisfaction with the overall water service we provide is very high and above target at 91.5%. This score is generated from our household satisfaction survey which is completed by a random representative sample of 400 customers during the year and asks about important topics like continuity of supply, pressure and taste.

We have continued to also be measured by Ofwat's Service Incentive Mechanism (SIM), an industry customer service metric intended to provide consistency of measurement across all companies. The score is based on two factors – customers' experiences when they have had to contact us and also the number of unwanted customer contacts and complaints we have received. Regrettably, despite making some progress this year, including achieving our highest ever quarterly billing score, we have still finished in the bottom quartile of the national league table, as we did last year. Essentially, taking both satisfaction targets into account demonstrates that our customers are happy with their water – however we need to perform better when customers contact us about a change in circumstances or an operational problem. We are now part way through our two year transformation programme to enhance the interaction and experience our customers receive which is based on what our customers tell us is important, such as getting things right first time every time and investing in our digital contact channels.

Another key indicator of customer satisfaction is the number of complaints we receive. Disappointingly we have had more than our target this year but our downward trend over recent years has continued and we are now at a four year low of eight complaints per 1,000 properties. This demonstrates that the changes we are making, such as increased training and simplified processes, are working.

Aim 5 – Reduce our impact on the environment while seeking to make a positive contribution to its quality:
Managing leakage is one of our customers' top priorities and a key focus for us too. We have met our leakage target for the 20th successive year which is particularly pleasing given the increase in bursts due to the challenging weather conditions. This was only made possible through a concerted team effort and increased resources to drive down the backlog of jobs and respond to the increase in leaks reported. We remain one of the top performing companies in this area and are committed to doing even better in the future with very challenging targets in our next Business Plan.

We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited resources which is why we have a target to reduce the amount of water per person that we need to take from the environment. While we have missed this target this year due to the substantial summer demand, we have significantly increased the number of water meters we have installed – over 10,000 – which is one of the most effective ways to influence and educate our customers about their usage as they then only pay for what they use.

Another education activity is the work we do with children and adults to increase the value that they place on their water supply. This ranges from school visits at our Bough Beech Reservoir to spreading our water-saving messages at community events, all of which we know leads to small changes that can add up to big benefits. We have reached well over 11,000 people this year and are always evolving our programme to make the most of new opportunities, such as being the first water company to introduce an alumni club for school children to stay in touch with participants to understand the behaviours they have changed.

The water industry is a significant user of energy due to the amount of electricity needed to pump and treat water but we have substantially reduced the amount of greenhouse gas emissions per litre of water we supply by switching to 100% renewable electricity and being more energy efficient. We have also increased the amount of electricity we generate ourselves by installing solar panels on the roof of our head office building and have also started a trial of electric vans.

There have been no incidents of pollution this year, another notable indicator of the importance we place on protecting and enhancing the environment.

Financial performance

Our financial performance remained healthy this year. Revenue increased to £66.8 million (2018: £65.0 million).

Operating costs increased to £48.4 million (2018: £45.1 million). Operating profits increased by £0.2 million to £20.1 million (2018: £19.9 million).

Interest charges decreased by 9% to £11.0 million (2018: £12.1 million) driven by the conversion of preference shares to ordinary shares and paying off our £30 million loan, both part of our de-gearing strategy.

Interest receivable and similar charges generated £0.7 million (2018: £0.7 million).

Profit before tax fell by £0.8 million to £9.7 million (2018: £10.5 million) where 2018 benefitted from a one-off gain on the sale of the non-household customer accounts.

Our accounting tax charge for the year was £2.2 million (2018: £1.1 million).

Capital investment

The Company has continued with its five-year investment programme, with £25.3 million invested in new and replacement plant and equipment in the year (2018: £26.0 million). The most significant portion of this spend, £4.1 million, was invested in the upgrade to Woodmansterne Treatment Works (2018: £9.6 million), which was commissioned ahead of the 31 March 2019 deadline, with full handover scheduled for later in 2019.

We have also continued to invest in the ongoing replacement of the pipes in our distribution network, investing £5.3 million this year to provide targeted replacement based on their age, condition and performance. Other investment of £6.9 million continued across our network, primarily on the improvement of our resilience mains to ensure water can be efficiently moved around our supply area and also £2.0 million in pipes to supply new developments. The remaining £7.0 million was spent in replacing equipment at our treatment works, pumping stations, service reservoirs and other operational sites (£2.6 million), investment in our ongoing metering programme (£2.7 million), and investment in IT, vehicles, laboratory and office equipment (£1.7 million).

Net debt

Net debt for the Company at 31 March 2019 decreased substantially by £35.5 million to £155.2 million (2018: £190.7 million) following the de-gearing exercise that was undertaken in the year, which included the repayment of the £30 million bank loan following a further issue of ordinary shares to our current shareholders. The carrying value of our £100 million index-linked bond was increased by £5.2 million due to the link to RPI (2018: £5.6 million increase). Cash and liquid resources increased by £1.7 million in the year (2018: £1.8 million increase).

The Company has also completed the renewal of its five year revolving credit facility.

The level of gearing is a key ratio under the covenants associated with our index-linked bond and is measured by the ratio of net indebtedness to regulatory capital value (RCV). The RCV is indexed by movement in RPI and linking of our principal debt instrument to the same inflation index provides an effective hedge against the impact of inflation. The ratio as defined by our bond was 66% at 31 March 2019 (2018: 78%), within the 80% permitted by our covenants.

Dividends

Ordinary dividends of £3.1 million (2018: £3.0 million) were paid from the Company's regulated activities. The Board applied the dividend policy as noted on page 35 when approving this level of dividends, determining the appropriateness of such ordinary dividends in terms of service delivery to customers and financial performance in the year. In addition, dividends of £0.6 million (2018: £2.6 million) were paid from accumulated reserves and cash balance from non-regulated activities. In 2018, £2.0 million of the dividend paid was deployed by the Company's parent undertaking to fund the acquisition of the non-household customer list by an associated company on 1 April 2017.

Pensions

The Company is a member of the Water Companies Pension Scheme (WCPS), details of which are disclosed in the financial statements under the requirements of IAS 19(R). A net pension scheme asset of £16.6 million (2018: £21.1 million) is included in the balance sheet.

Conclusion

Overall, I am very pleased with the significant progress made in achieving our aims for our customers in an efficient and effective manner, thanks to the continued dedication and hard work of our employees. This will stand us in good stead for the year ahead and the final phase of the current price review process.

Anthony Ferrar
Managing director
15 July 2019

Managing risk effectively

Risk management is embedded in our culture and a key Company activity. A formal register records and ranks risks according to likelihood of occurrence and magnitude of impact and it also keeps track of mitigating actions. The risks are grouped under the six headings below and take account of financial and reputational impacts.

The Audit Committee reviews the register twice a year, reports back to the Board and the principal risks currently affecting the Company are shown below. This is not a comprehensive analysis and some of these risks are also described in other sections of this report.

Risk	Effect	Mitigations	Risk after mitigating actions
Business systems			
Cyber attack	Interference with operational controls Loss of personal data	• Multiple layer security • Controlled access to Company systems • Participation in expert forums • Regular testing and enhancement of security measures • Employee awareness training	15
Compliance with legal obligations	Compliance failure leads to regulator action	• Employee awareness training • Formal processes for compliance with market codes • Dedicated resources • Independent assurance • Active participation in market development	12
Failure of billing system	Temporary loss of revenue	• Stable billing system supported by experienced system provider • Detailed controls for any changes to system or environment • Full disaster recovery arrangements in place and tested annually • Adequate liquidity for temporary loss of billing capability	4
Physical assets			
Water supply shortage	Customer demand not met	• Detailed water resource management planning • Maintaining ability to treat peak demand at water treatment works • Resilience and flexibility of network • Protection of assets from risk of flooding • Customer metering policies • Water efficiency education and communication programmes • 24-hour standby arrangements • Standby power generation capability at treatment sites	9
Water quality failure, including by deliberate acts	Poor quality water supplied to customers – failure of statutory duty	• Security measures at all sites • Detailed control procedures for all treatment and network activities • Automated controls on treatment processes • 24-hour manned Control Room • Extensive sampling regime • In-house quality accredited laboratory	6
Supply chain			
Impact of Brexit	Impact on supply chain, labour and financial market	• Working with Water UK and the wider sector • Managing inventory levels • Advance purchase of electricity • Monitoring changes within financial markets	6
People			
Loss of large numbers of staff	Failure of normal business operations	• Health benefits including flu injections offered to employees • Staff consultation and engagement to avoid industrial action • Health and safety given priority at highest level in the Company • Cross-training and flexible working practices across functions • Annual disaster recovery exercises • Industry mutual aid arrangements	9

A cyber attack continues to be our most significant risk and continuously enhancing our control measures to mitigate this risk remains a high priority.

Potential impacts of the UK's exit from the European Union have now been incorporated into the register as a Brexit risk, as shown below.

Impact					
Very high	5	10	15	20	25
High	4	8	12	16	20
Medium	3	6	9	12	15
Low	2	4	6	8	10
Very low	1	2	3	4	5
Likelihood	Highly unlikely	Unlikely	Possible	Likely	Highly likely

To read more on the effectiveness of internal controls and risk management systems see page 46

Risk	Effect	Mitigations	Risk after mitigating actions
People (continued)			
Recruit and retain high quality staff	Degradation of service to customers and business success	• Competitive employment conditions and employee benefits • Investors in People gold recognition • Regular appraisals and staff recognition schemes • Commitment to staff training and development • Employee engagement surveys and forums	2
Inappropriate action by employees	Damage to customer service, Company reputation or finances	• Code of Conduct and Business Ethics communicated to all staff • Effective internal controls over systems and processes, including segregation of duties • Training and performance reviews for all staff • Confidential whistleblowing hotline service	6
Financial			
Regulatory compliance	Compliance failure leads to reputational or financial damage	• Experienced management team • Prioritise adequate resourcing • Well-established procedures for ensuring compliance • Internal governance hierarchy • Independent external assurance • Accredited Environmental Management System H&S training	4
Failure of economic regulation	Insufficient funding for Company to fulfil its duties	• Stable and transparent regulatory regime • Detailed business planning process, including customer consultation • Strong regulatory focus for management • Effective relationship with regulator • External assurance for key regulatory submissions • Appeal mechanism available for key regulatory decisions • Contingency plans developed	12
Financing	Increase in borrowing costs breaches financial covenants	• Debt exposure linked to increase in regulatory capital value of business • Ring-fenced accounts funded to ensure compliance • Governance arrangements for monitoring forecast covenant ratios • Detailed treasury controls at key measurement points • Independent audit of key covenant ratios	4
Customer participation			
Legitimacy	The recent political and regulatory pressure that has questioned the legitimacy of the water sector	• Overall sector response to the challenge • Water UK activities and Company image and reputation in the community • Our specific Company actions such as publishing 'Keeping it clear'	6
Cash collection rates	Loss of revenue and increased collection costs	• Affordability testing of future prices • Variety of payment options offered • Discounts available for genuine financial difficulties (including a Water Support tariff) • Experienced collections staff with detailed local knowledge • Mixture of field-based employees and external legal advisors to optimise collection performance	4

Good governance is essential to strategic delivery

> **We continue to be supportive of Ofwat's focus on increasing trust and confidence in the water industry and have explicitly included more information in this report.**
>
> **Jeremy Pelczer**
> Chairman

The UK Corporate Governance Code defines corporate governance as the system by which companies are directed and controlled. It is about what the Board does and how it sets the values of the Company.

The Board of Directors, led by myself as chairman, has always taken its responsibility for the governance of this Company very seriously. Good governance is based on the underlying principles of accountability, transparency, probity and focus on the sustainable success of the business over the longer term. In this section of the Annual Report we will explain our roles and how we have put the principles of good governance into practice. In light of recent questions about the transparency of the water industry, we have made a particular effort to ensure the information presented is clear and the key points are drawn out.

As a monopoly company we are in a privileged position, which is why we have always taken a proactive approach to our corporate governance and the transparency of our decision making. We recognise how important this is in ensuring the trust and confidence of our customers and the legitimacy of our Company and the wider industry.

Our ongoing focus on this area means we are well positioned to respond to the increased level of scrutiny that the industry is facing and indeed we are already achieving many of the key actions identified by Ofwat in its board leadership, transparency and governance principles published in January 2019. However, we recognise the importance of the Government and Ofwat's reform agenda that is currently being implemented, and we will further increase our efforts to address issues around leadership, transparency and building the trust of our customers. Our Business Plan for 2020 to 2025 details the enhancements we will make to our current practices and 'Keeping it clear', our new guide to how we are owned and run, summarises the steps we have already taken to date.

Jeremy Pelczer
Chairman
15 July 2019

Responding to our regulator

We continue to be supportive of Ofwat's focus on increasing trust and confidence in the water industry and have explicitly included more information in this report:

- The regulatory reporting section includes further information on how we believe our governance approach meets future reporting requirements and also a new Board statement on our direction, aspirations and performance
- Further explanation of our executive pay policy in the Remuneration Committee report
- Expanded disclosures to be more transparent about matters reserved for the Board

More detail is also available in the Corporate governance report on page 37.

To read our first ever customer-friendly guide to how we are owned, run and financed, see our website:
www.seswater.co.uk

Did you **know**?

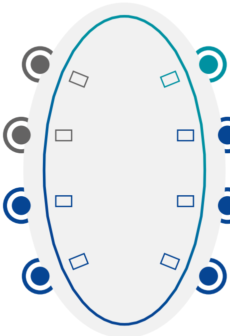
We have an **independent Customer Scrutiny Panel** which provides an invaluable contribution to our governance processes. You can read more from Graham Hanson, Chair of the CSP on page 98

We submitted our Business Plan for 2020 to 2025 in September 2018. In it **we commit to reducing bills by 6%** (before inflation), **increasing investment in our service to £126 million** and making **£21 million of efficiency savings**

Board overview

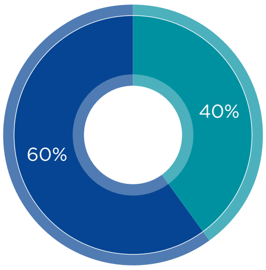
The role of the Board is to provide leadership and to review the overall strategic development of the Company.

Board composition



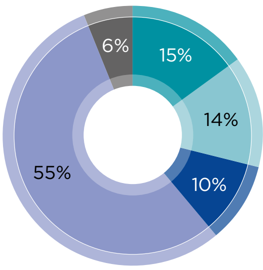
- **Chairman:** 1
- **Executive directors:** 2
- **Non-executive directors:** 5 (including three independents)

Non-executive director tenure (%)



- **0-1 year**
- **Over 3 years**

How the Board spent its time (%)



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

Industry/background experience

Energy/Engineering

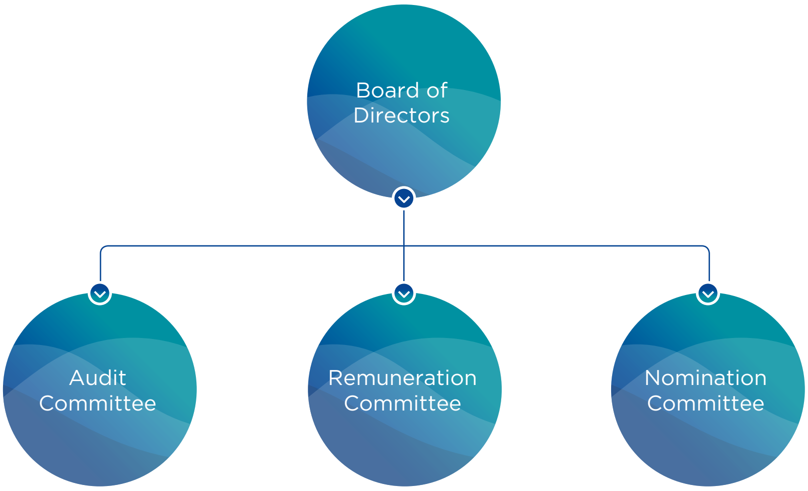
Political/Regulatory

Business development

Financial

Governance framework and compliance

Our governance framework, which is shaped by the 2016 UK Corporate Governance Code (the Code), the Companies Act 2006 and secondary legislation, sets out standards of good practice in relation to Board leadership and effectiveness, accountability, remuneration and relations with shareholders.



Responsible for monitoring and reviewing the integrity of the financial and regulatory reporting process and the effectiveness of internal controls and risk management systems.

Responsible for making recommendations on the remuneration policy and application of the policy in relation to executive directors' remuneration and approving the design and targets for the Company's performance-related pay schemes.

Responsible for reviewing the size, structure and composition of the Board, including contributing to the annual review of Board performance and planning for orderly succession of Board members.

Murray Legg
Chairman

Read more on page 61

Dave Shemmans
Chairman

Read more on page 52

Jeremy Pelczer
Chairman

Read more on page 50

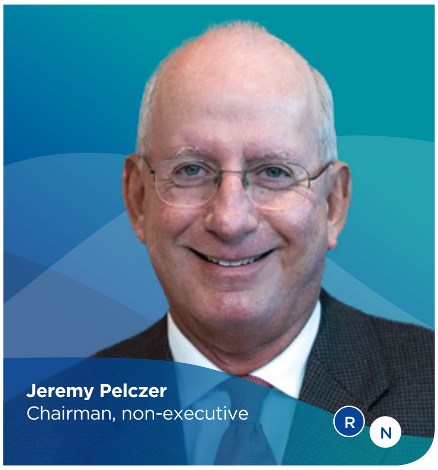
Additionally, the Board also has pension, energy, governance and PR19 financing committees.

Key responsibilities

Chairman	Managing director	Finance and regulation director and company secretary	Non-executive directors
• Operation and effectiveness of the Board • Ensuring effective contributions to the Board by all • Disseminating accurate and timely information	• Strategic planning • Performance of the Company • Leading senior management team in operating the Company	• Responsible for support functions, corporate governance and ensuring adherence with statutory and regulatory requirements	• Independent judgement, knowledge and experience • Constructive challenge • Help develop strategy proposals

The leadership team

Chairman


Jeremy Pelczer
Chairman, non-executive
R N

Executive directors


Anthony Ferrar
Managing director
N


Paul Kerr
Finance and regulation director

Independent non-executive directors


Murray Legg
Senior non-executive director
A R N


Dave Shemmans
Non-executive director
A R N


Jon Woods
Non-executive director
A R N

Shareholder nominated non-executive directors


Seiji Kitajima
Non-executive director


Kenji Oida
Non-executive director

Key to committees

A Audit
R Remuneration
N Nomination

Member
Chairman

Did you know?

We are jointly owned by **Osaka Gas** and **Sumitomo Corporation**. Both are Japanese companies that run UK-based operations

Jeremy Pelczer
Chairman, non-executive

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 the 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.

Current external appointments
Jeremy is currently the Chairman of East Surrey Holdings Ltd, of Cylon Controls Ltd and of Agua Via Ltd and a Director of Landara Ltd and G2O Water Technologies Ltd.

Anthony Ferrar
Managing director

Skills and experience
Anthony joined the Company in 2008 after 15 years as the Finance Director and Company Secretary of Bournemouth & West Hampshire Water plc. He has previously worked in UK and overseas contracting, manufacturing and service industries.

Current external appointments
Anthony is a Director of a number of associated companies, a member of the Board of Water UK and a Trustee of Water Companies Pension Scheme.

Paul Kerr
Finance and regulation director and company secretary

Skills and experience
Paul is a chartered accountant and joined the Company in April 2018.
His previous role was as the 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.

Current external appointments
Paul is a Director of a number of associated companies.

Murray Legg
Senior non-executive director

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 15 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.

Current external appointments
Murray is also a non-executive director of GlobalData plc and chairs their Audit Committee. He joined the Board on 1 October 2015.

Dave Shemmans
Non-executive director

Skills and experience
Dave joined Ricardo, a global engineering, strategic and environmental engineering consultancy, in 1999. Prior to joining Ricardo he was Operations Director and co-founder of Wavedriver Limited (a subsidiary of PowerGen plc). He has also gained consulting and management experience in both listed and private companies. Dave holds a degree in electronics and is a graduate of the Harvard Business School.

Current external appointments
Dave is the Chief Executive Officer of Ricardo plc and a Director of a number of its associated companies. He joined the Board on 1 September 2014.

Jon Woods
Non-executive director

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.

Current external appointments
Jon is the General Manager of Coca-Cola UK, Ireland and Northern Europe, where he is responsible for all aspects of operations.

Seiji Kitajima
Non-executive director

Seiji joined the Board on 6 February 2019. He joined Sumitomo Corporation in 1992 and has held positions in water, telecomms, renewable energy and transport teams.

Current external appointments
Seiji is currently the General Manager of Sumitomo Europe's Infrastructure Business Unit.

Kenji Oida
Non-executive director

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.

Current external appointments
Kenji is currently the Managing director of Osaka Gas UK based in London.

Advisors

Auditor
KPMG LLP
15 Canada Square
London E14 5GL

Solicitors
Blake Morgan
New Kings Court
Tollgate
Chandlers Ford
Hampshire SO53 3LG

Bankers
Royal Bank of Scotland
280 Bishopsgate
London EC2M 4RB

Lloyds Bank
Horley
Surrey RH6 7BJ

Property consultants
Jones Lang LaSalle
22 Hanover Square
London W1S 1JA

Land agent
Dalcour Maclaren
1 Staplehurst Farm,
Weston on the Green,
Oxfordshire OX25 3QU

Registered office
Sutton and East Surrey Water plc
66-74 London Road, Redhill
Surrey RH1 1LJ

The directors present their report and audited financial statements for the Company for the year ended 31 March 2019.

Directors and their interests

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

- J Pelczer, chairman
- A Ferrar, managing director (informed the Board on 27 March 2019 of his intention to retire this year)
- J Chadwick, finance and regulation director and company secretary (resigned 27 September 2018)
- P Kerr, finance and regulation director and company secretary (appointed 18 July 2018)
- M Legg, senior independent non-executive
- D Shemmans, independent non-executive
- J Woods, independent non-executive
- Y Sakai, non-executive (resigned 6 February 2019)
- S Kitajima, non-executive (appointed 6 February 2019)
- R Nishida, non-executive (resigned 1 May 2019)
- K Oida, non-executive (appointed 1 May 2019)

Service contracts

All current executive directors have service contracts and notice periods as detailed in the Remuneration Committee report on page 59.

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 50 and 52.

Reappointment

Our articles of association provide that our directors must retire at every Annual General Meeting following their last election or reappointment which is consistent with the recommendation contained within the 2016 UK Corporate Governance Code (the 'Code') that all directors should be subject to annual election. Information regarding the appointment of our directors is included in the Corporate Governance report from page 37.

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 20. 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 Regulatory Accounts on page 134.

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 in February 2013.

The immediate parent of the Company is SESW Holding Company Limited (which wholly owns the Company), and was established at the time that the Company's £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 134.

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 49.

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, Merton and Sutton, as well as east Surrey and parts of Kent and Sussex.

Financial results and dividends

Financial performance for the year is described on pages 24 and 27 in the Operating and financial review.

Revenue for the year ended 31 March 2019 was £66.8 million (2018: £65.0 million). Profit before taxation was £9.7 million (2018: £10.5 million). A profit for the year of £7.5 million (2018: £9.5 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 9 of the financial statements. The total dividend declared and paid for the year ended 31 March 2019 was 11.9 pence (2018: 17.9 pence) per ordinary share and included a special dividend of nil (2018: 6.4 pence) paid from accumulated reserves and cash balances from activities not associated with the Company's principal water supply obligations. The Group of which the Company is a member used the prior year dividend received to fund the acquisition of the Company's non-household customer list, the proceeds of which were received by the Company's appointed business.

A preference dividend of 7.8 pence (2018: 7.8 pence) was also paid on each preference share in the first half of the year. During 2018 the preference shares were converted to ordinary shares as part of the Company's de-gearing strategy.

Dividend policy statement

The Board considers that the base level of ordinary dividend for the appointed business should reflect the return on regulatory equity (defined as Regulatory Capital Value less net debt) allowed in the regulator's most recent price review, subject to the Company having adequate resources available to fulfil its overall service commitments and its other financial obligations. This includes compliance with the covenants associated with its index-linked bond (which are designed to protect the interests of the Company's creditors).

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

- The overall level of service delivered to customers, compliance with statutory obligations and progress with the delivery of regulatory and other obligations
- Financial performance against regulatory assumptions and internal targets.

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

The dividend paid by the appointed business for the year ended 31 March 2019 was £3.1m (2018: £3.0m).

Dividends paid by the non-appointed business was £0.6 million (2018: £0.6 million). 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 Industry review on page 16.

Research and development

While the Company does not have a specific research and development function, significant innovation initiatives continue to be researched and implemented via a dedicated Innovation manager. Activity in 2018/19 included the development and trial of a highly innovative combined smart meter and valve which incorporates internet-of-things technology, the design and testing of a device to minimise water use on empty properties and the implementation of artificial intelligence solutions to manage leakage.

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 2019 were 5,574 tonnes of carbon dioxide equivalent (tCO_2eq) (2018: 22,597 tCO_2eq), a 75% reduction on the previous year. This equates to operational emissions of 71 $kgCO_2eq$ per million litres of treated water (2018: 376 $kgCO_2eq$).

Operational greenhouse gas emissions for the regulated business include:

- Direct emissions from Company vehicles and fossil fuel use
- Indirect energy use emissions from the purchase of electricity
- Emissions from outsourced services, business travel and transportation and distribution of purchased electricity.

The significant reduction in our greenhouse gas emissions in 2018/19 reflects the Company's decision to purchase 100% renewable electricity from 1 June 2018 onwards, as well as reduced use of gasoil.

The Company has solar panels installed at five of our treatment works and this year has also installed solar panels at our Redhill head office. In 2019 on-site renewable electricity generation was 211,561 kWh (2018: 201,188 kWh) and we have also introduced the first electric vans to our fleet.

Charitable and political donations
During the year the Company made charitable donations amounting to £18,839 (2018: £13,244). There were no political donations (2018: £nil). The largest donation to UK charities was £5,000 to the Reigate and Banstead Junior Citizen Scheme.

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 are approximately 28 days (2018: 30 days).

Going concern and long-term viability
The going concern and long-term viability statements required by the Disclosure and Transparency Rules are set out on pages 47 and 48 of the Corporate governance report and are incorporated by reference in this report.

Financial instruments
Our policy in relation to the use of financial instruments can be found in Note 17 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
Effective 1 May 2019, Ryuichi Nishida, one of the Company's shareholder nominated non-executive directors, ended his term on the Board and was succeeded by Kenji Oida.

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; and
- 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 c418 of the Companies Act 2006.

Auditors
KPMG LLP is the auditor at the date of this report. PricewaterhouseCoopers LLP ('PwC') will replace KPMG LLP following the approval of these accounts at which time KPMG LLP will not seek reappointment. PwC will be appointed by directors as auditors for the financial year ending 31 March 2020 onwards and their appointment is subject to shareholder approval at the forthcoming Annual General Meeting.

Corporate governance
The Company's statement on corporate governance can be found in the Corporate governance report on pages 37 to 49 of this annual performance report. The Corporate governance report forms part of this Directors' report and is incorporated into it.

Annual General Meeting
Our 2019 Annual General Meeting (AGM) will be held on 27 September 2019. Full details of the resolutions proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM, a copy of which can be found on our website. At our 2019 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 appoint PwC as statutory auditor.

By Order of the Board.

Paul Kerr
Finance and regulation director & Company secretary
Redhill, Surrey
15 July 2019

Company number 02447875

Jeremy Pelczer
Chairman, non-executive

Statement by the Chairman on corporate governance

We have spent considerable time as a Board this year focusing on reviewing and addressing the matters raised by our regulator's consultation on Board leadership, transparency and governance. We continue to be supportive of our regulator's initiatives in this area, and have provided our indicative consent for Ofwat's updated objectives in this area to be incorporated into our licence.

While as a Board, and a Company, I believe we are very well positioned to address these questions, we nonetheless take very seriously the consultations in these areas introduced by our regulator, and have taken direct steps to ensure we continue to maintain trust, show leadership and ensure transparency in all matters for the benefit of our customers and other stakeholders.

For example, page 90 of this annual report contains the annual statement requested by our regulator to explain the Company's vision, direction and performance from the Board's perspective. This statement also includes more transparent reporting on how we adhere to Ofwat's 2014 principles in this area and, importantly, provides a view of where we stand as a Board and Company in relation to Ofwat's updated governance related principles which apply from 1 April 2019 onwards.

In the prior year the Board also established a Governance committee to consider all governance matters, and in particular, guidance from Ofwat and the Financial Reporting Council (FRC). I am pleased to note that one of the key outputs from this Committee was the 'Keeping it clear' document which we published in November 2018, 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 are now also being published on our website.

In addition, we engaged an external facilitator this year to evaluate the Board's performance. While this review concluded that the Board and its committees were operating effectively, a series of key actions arising from the review have been included in this report.

The fourth year of progress in delivery of the commitments we made to customers in our last Business Plan (which covers 2015-2020) has also received close attention from the Board. There has been encouraging progress made in fulfilling these commitments – particularly with respect to reducing leakage and increasing resilience - but the Company still has improvement to make on overall customer satisfaction (as measured by Ofwat's Service Incentive Mechanism) where recent results, albeit improved, have not met our aspirations. Importantly this year, to address this matter, the Board has approved significant investment to implement a new customer relationship management (CRM) and billing system, which will provide much better functionality that will really enhance our ability to sustainably improve our service to customers.

The Board has also been heavily involved in the Company's PR19 Business Plan submissions in the year, providing significant time, debate and challenge to the four key themes of customer service, affordability, resilience and innovation, and using expertise and experience from outside the water industry to challenge management thinking and proposals. This has also included performing a satisfactory review of the financeability and long-term financial resilience of the Company's plans.

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. It remains greatly appreciated.

Jeremy Pelczer
Chairman
15 July 2019

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.

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 that it complies fully with the principle of governing the Company in accordance with the standards applicable to an independent company 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) consultation, 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.

Transparency

The Board will 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 April 2016 edition of the UK Corporate Governance 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 20. The Board therefore considers that it has achieved full compliance with the Disclosure and Transparency Rules required by the UK Corporate Governance Code.

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 has utilised an external facilitator to formally review its performance during the course of the year and reports on its conclusions on page 45. The Board considers that it complies with the principle of maintaining an appropriate balance of skills, experience, independence and knowledge of the Company.

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.

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 Company's ultimate holding company in the UK also applies a code on governance which is published on page 49.

The Board considers it has fully complied with the main principles of the UK Corporate Governance Code (the 'Code') and its application. Any reasons for not applying specific provisions of the Code, are described in the following sections.

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

The Board has been heavily involved in the current year in responding to Ofwat's governance-related consultation. Ofwat's conclusions in this area complement the Board's code on principles of good governance as noted above, and the Board has been highly supportive of Ofwat, ensuring that the following key actions have been taken with respect to the consultation.

Consideration of Ofwat's comments on 'future reporting' with respect to BLTG matters within this Annual Report

Ofwat's updated BLTG objectives and reporting came into effect from 1 April 2019. For 2018/19 reporting Ofwat has noted that companies should report against the principles that were in place at the time (the 2014 principles).

The Board has however taken into account Ofwat's request to consider 'future reporting' on BLTG matters within this year's Annual Report, as noted in the table below:

Ofwat considerations for 'future reporting' on BLTG matters	Board response
Provide up-to-date, self-standing reporting to clearly explain how the Board's governance approach has met BLTG objectives	The Regulatory Reporting section of this report (pages 90 to 94) now incorporates further information on how we believe our governance approach meets the BLTG objectives
Ensure clear articulation of all matters reserved to Board, shareholders and holding companies, and how the regulated company Board still retains full control of the business performance and strategy	Our disclosure on such reserved matters on page 40 within this report has been expanded to be clearer to address these points and be more transparent on the full control the regulated Company's Board has on performance and strategy
Further explanation of alternative arrangements or actions that allow sufficient independent management when a non-independent chair is in place or where there are other matters that may have impaired director independence in the year	As articulated on page 38, we believe that our chair is independent. However, we have expanded disclosure in this area to articulate clearly supporting mechanisms we have in place to ensure Board and chair independence (page 44)
Adopt early the requirement to provide an annual Board statement in the Annual Report to explain how the company has set its aspiration and performed for all its services	A separate Board statement is now included at the start of the Regulatory Reporting section of this report, as detailed on page 90
In addition, include a section in the Annual Report that details how the Board believes it has met the 2019 objectives already – or has incorporated steps in the next year – to meet such objectives. This will include specific reference to underlying provisions for each objective	Within the separate Board statement from page 91, a table has been included to describe how the Board believes it is meeting the BLTG 2019 objectives

Ofwat's proposed licence modifications

Ofwat has stated its intention to insert specific conditions into companies' licences (or update current licences) for meeting BLTG objectives. While the formal statutory consultation is in progress at present, the Board has already provided indicative consent to Ofwat to incorporate these BLTG objectives in our licence.

Role of the Board

The Company is controlled through its board of Directors. The Board's main role is to ensure that 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 strategic objectives and ensures that 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:	• Responsibility for the overall management of the Company • Approval of the Company's 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 that 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:	• 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:	• Approval of the half-yearly report 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:	• 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 • Reviewing the principal 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:	• 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 borrowing 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:	• 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 Managing Director • Appointment of the Senior independent 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:	• 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 managing director:	• The division of responsibilities between the Chairman and the Managing director which should be in writing • Approval of terms of reference of Board committees • Receiving reports from Board committees on their activities
Corporate governance matters:	• 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:	• Code of conduct and business ethics • 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 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' and officers' liability insurance • Major changes to the rules of the Company's pension scheme, or changes in the fund management arrangements • This schedule of matters reserved for Board decisions

As noted above, this comprehensive list of reserved matters provides the Board of the regulated water company with 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.

Roles and responsibilities

The division of responsibilities between the Chairman and Managing director is clearly defined and has been approved by the Board. The table 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
Managing director – Anthony Ferrar is responsible for:	• Development of 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
Finance and Regulation Director & 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 Managing director, 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

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

With respect to succession, the Board is pleased that the Chairman will serve a third and final three-year term from March 2019, which will mean compliance with the Code in terms of his overall tenure as Chairman not exceeding nine years, and that Murray Legg and Jon Woods commenced serving their second three-year terms as independent non-executive directors, effective from 1 October 2018 and 1 March 2019 respectively.

In addition, Seiji Kitajima replaced Yoichi Sakai as one of the Company's shareholder-nominated non-executive directors, after his pre-appointment interview with Ofwat. Ryu Nishida, the Company's other shareholder-nominated non-executive director, whose original three-year term on the Board was due to end in March 2018, remained on the Board until May 2019. His successor on the Board, Kenji Oida, was formally appointed on 1 May 2019. Ahead of his formal appointment, Mr Oida met Ofwat representatives as part of the well-established protocol in place for such appointments to the Board.

On 27 March 2019 Managing director Anthony Ferrar informed the Board of his intention to retire this year and a process is underway to appoint his successor.

Finally, the Board is pleased to note the appointment of Paul Kerr as Finance and Regulation Director and Company Secretary, after an appropriate handover period with his predecessor, John Chadwick, who retired in September 2018.

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 page 33. 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. The Chairman has noted that, upon completion of his third and final term, a chair will be appointed who is independent upon date of appointment, in accordance with the UK Corporate Governance Code and Ofwat underlying provisions to their BLTG objectives.

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.

Evaluation of Board performance

The review of Board effectiveness for 2018 was facilitated externally by Independent Audit Limited during April and May 2019 with the results presented to and discussed at the Board meeting in June 2019. The exercise was conducted using a self-assessment questionnaire developed by Independent Audit Limited with input from the Chairman and Company Secretary. This 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 completed questionnaires was then collated and analysed by Independent Audit Limited 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. The Board agreed to take these actions forward as the basis of a plan of work for delivery in 2019 to enhance the effectiveness of the Board. Independent Audit Limited have no other connection with SES Water.

All the actions from the previous effectiveness review have been completed as noted below:

Board effectiveness review action points	Board response
Formal review of Board powers on an annual basis	Formal review was conducted in September 2018, as detailed above
Continuation of an annual Board strategy day, with a review in the coming year to ensure appropriate time is being allocated to strategic matters	Board strategy days have continued in 2018/19, covering a variety of strategic matters of importance to the Company
Additional interaction with the Board and the workforce on Company strategy as part of the Company's PR19 business planning work	Board interaction with the workforce continues via regular site visits, and will be complemented in 2019 via interaction of an independent non-executive director with the employee-representative council
Increasing the number of deep dive sessions at Board level on key Company risks	Several Board deep dive sessions have occurred in the year, including focus on drought plans and cyber security
Additional training slots for non-executive directors within the Board programme for the year	Completed, with training provided as deemed appropriate to individual non-executive needs and skill sets
Increasing the frequency of the Pension Risk Management Committee meetings in the year	Completed, with the committee meeting five times in the year
An expansion of succession planning review by the Nomination Committee to go beyond executive and senior manager levels to business-critical roles across the business	Completed, with the Nomination Committee considering succession planning at the Senior management Team level during the year
A review in the upcoming year to consider an external facilitation of Board effectiveness	Completed utilising Independent Audit Limited, with relevant actions points noted below

Key actions arising from the current year external Board effectiveness review included:

- Continued focus on spending more time discussing strategy, particularly 'big picture' issues, including opportunities and risks associated with new technology
- Further focus on risk deep dives, particularly on how different risks across the Company are connected
- Greater focus by the Audit Committee on internal audit arrangements and external auditor performance
- Possible use of external advisors for the Remuneration Committee and further focus on executive succession planning by the Nomination Committee.

No changes were made to the terms of reference of the Board's formal committees, which the Board considered were operating effectively. The latest versions 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. In addition, the Board periodically visits the Company's water treatment works and enquires into operational policies, practices and procedures.

Board effectiveness

The Board met six times during 2018/19. Committees met as required and considered regular and ad hoc business. Attendance at meetings by directors is summarised below.

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Jeremy Pelczer	6/6	N/A	N/A	5/5
Murray Legg	6/6	4/4	3/3	5/5
Dave Shemmans	6/6	4/4	3/3	5/5
Jon Woods	5/6	3/4	2/3	4/5
Ryuichi Nishida	5/5	N/A	N/A	N/A
Yoichi Sakai	4/4	N/A	N/A	N/A
Anthony Ferrar	6/6	N/A	N/A	5/5
John Chadwick	3/3	N/A	N/A	N/A
Seiji Kitajima	2/2	N/A	N/A	N/A
Paul Kerr	5/5	N/A	N/A	N/A

Please note that Seiji Kitajima replaced Yoichi Sakai in February 2019 and Paul Kerr replaced John Chadwick as a Board member in September 2018.

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 and its closure to future accruals in the year, (a Pension Risk Management Committee) and for considering the way in which the Company should be financed in the future (a Financing Committee). In addition, there is a Governance Committee to consider both recent requirements from Ofwat and the FRC in the area of BLTG. 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 appropriate.

System of internal control

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

The Board has reviewed the effectiveness of the Company's system of internal control, including control of financial, operational, and compliance matters and risk management. It confirms that the Company has complied with its own system of internal controls, detailed below, and that this system meets the requirements of the UK Corporate Governance Code for the year ended 31 March 2019.

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

Control environment

The directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. 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. 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.

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 28 and 29.

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 cashflow statements are reported against the corresponding figures for the budget and the prior year, and the forecast for the full year is reviewed.

Control procedures

There are clearly defined policies for controlling expenditure including appropriate authorisation levels. Larger projects and major investments require Board approval.

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 2018/19 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, with only minor potential enhancements identified.

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 28 to 29). 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 UK Corporate Governance 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 UK Corporate Governance 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 24 to 29.

The financial position of the Company is set out on pages 70 to 72. Note 17 of the Financial Statements on pages 86 to 87 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 also considered completion of the renewal in July 2019 of the Company's revolving credit facility at market rates.

Long-term viability statement

The directors have assessed the viability of the Company to March 2030, 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 2030.

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 resubmission to Ofwat's initial assessment of our plan).

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
- Combined scenario of 10% increase in both operating and capital expenditure, annual penalties for failure to deliver regulatory performance commitments of 1.5% per annum, and penalties equivalent to 1% 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 revenue
- A water quality failure
- Loss of high quality staff
- Operating expenditure underperformance
- Failure of our AMP 6 efficiency programme
- Risk with respect to our bond sinking fund requirements
- Additional pension costs on the defined benefit scheme
- Redemption costs associated with our long-term bond
- Combined scenarios for the above cyber attack, operating expenditure underperformance and failure of our AMP 6 efficiency programme.

The directors have determined that the period to March 2030 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 the recent Business Plan submission and resubmission, and the directors continue to consider such scenarios relevant for the Company, given that they are reflective of the key risks separately documented within the Strategic Report of this Annual Report. The directors consider the above stress testing scenarios stretching for the Company, based on the fact that these scenarios represent the higher category of risks for the 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 £100 million 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 the recent PR19 Business Plan submission. Such assumptions, together with data input, were subject to the Company's well-established internal procedures for managing data quality and assurance. In addition, the Company used a range of suitably qualified external assurance providers to give additional comfort to the data and underlying assumptions which were incorporated into the Business Plan, and hence this Long-term viability statement. In particular, a leading accounting practice confirmed the reasonableness of the key assumptions made in preparing the inputs into the data tables that underpin the 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, the Company remains financially resilient (and has sufficient headroom to raise additional debt within its covenants) to address all scenarios with the exception of the extreme scenarios (combined scenarios and a 10% total overspend). In the latter scenarios, maintaining financial resilience would be achieved through a combination of suspending dividend 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 the Company is 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 on Ofwat to ensure that efficient water supply companies are able to finance their functions.

SUMISHO OSAKA GAS WATER UK LTD (SOGWUK)

Code of corporate governance principles

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

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

1. We shall ensure that our holding structure is transparent and explained in a clear way. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year
2. We shall provide clear information on our debt and equity structures. This structure, together with any changes, shall be demonstrated and explained in the Annual Report of the regulated company each year
3. We shall be transparent in declaring the interests of our directors. We shall demonstrate this transparency by having a clear internal process for disclosure and publishing a list of such interests in the Annual Report of the regulated company each year
4. 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
5. 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
6. 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
7. 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
8. 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
9. 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 in June 2014.

Jeremy Pelczer
Chairman, non-executive

Statement by the Chairman of the Nomination Committee

While Board membership has undergone certain changes in 2018/19, the Committee has remained focused on succession planning and ensuring the continued development of talent and effective senior management across the business. The Committee is pleased to note the appointment of Seiji Kitajima as one of the Company's shareholder-nominated non-executive directors, replacing Yoichi Sakai. Seiji was previously a Board member between 2015 and 2016 and brings with him a wealth of experience in water, telecommunications, renewable energy and transport, having been with Sumitomo Corporation since 1992. In addition, the Committee is pleased to note the appointment of Paul Kerr as Finance and regulation director, after a successful handover period with his predecessor, John Chadwick, who retired in September 2018.

On 27 March 2019 Managing director Anthony Ferrar informed the Board of his intention to retire later this year and a process is underway to appoint his successor.

The review of the effectiveness of the Board and its committees, which this year was facilitated by an external provider, concluded that the Nomination Committee continued to fulfil its objectives appropriately.

Jeremy Pelczer
Chairman of the Nomination Committee
15 July 2019

Membership	Responsibilities
Jeremy Pelczer Dave Shemmans Murray Legg Jon Woods Anthony Ferrar	• 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
Attendees:	*Terms of reference:*
Senior employees or external advisors may attend specific meetings by invitation.	The Committee's full terms of reference as approved by the Board can be found in the corporate governance section of the Company's website.

Activities of the committee

The Nomination Committee met five times during the year, focusing upon 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.

With respect to Board succession, during the year the Committee recommended to the Board that Jeremy Pelczer serve a third and final three-year term from March 2019 as Chairman of the Board, which will mean compliance with the Code in terms of his tenure as Chairman not exceeding nine years. The Committee also approved and recommended to the Board that Murray Legg and Jon Woods serve their second three-year terms as independent non-executive directors, effective from 1 October 2018 and 1 March 2019 respectively.

In addition, Seiji Kitajima replaced Yoichi Sakai as one of the Company's shareholder-nominated non-executive directors, after his successful pre-appointment interview with Ofwat. Ryu Nishida, the Company's other shareholder-nominated non-executive director, whose original three-year term on the Board was due to end in March 2018, remained on the Board until May 2019 after confirmation by the Committee. His successor on the Board, Kenji Oida, was formally appointed on 1 May 2019, following his successful pre-appointment interview with Ofwat. The Committee would like to thank both Yoichi Sakai and Ryu Nishida for their significant contribution to the Board and Company during their tenure.

On 27 March 2019 Managing director Anthony Ferrar informed the Board of his intention to retire this year and a process is underway to appoint his successor. Finally, the Committee is pleased to note the appointment of Paul Kerr as Finance and Regulation Director and Company Secretary, after an appropriate handover period with his predecessor, John Chadwick, who retired in September 2018. The Committee would like to thank both Anthony and John for their significant contributions over a number of years to the Company.

The Committee is pleased that the above confirmations and appointments, which were approved by the Board, will bring a level of stability and continuity to the Board in the coming years, especially through the final stages of the Company's PR19 Business Plan process.

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 and as such an evaluation was concluded in June 2019, with the aid of an external facilitator (Independent Audit Limited) and the findings reported to the Board. The previous review was undertaken in September 2017. The Board concluded that it remained satisfied that the Committee continued to perform its duties in line with its terms of reference. In addition, the external Board effectiveness review conducted by Independent Audit also concluded that the Committee performed effectively, adding that further focus on executive succession planning and talent management would benefit the Committee in the future. 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.

Directors' remuneration report at a glance

Statement by the Chairman of the Remuneration Committee

During 2018/19 the Committee has continued to focus on the effectiveness of the incentive schemes for executives, senior management and all employees introduced prior to 1 April 2015. Full details of the achievements against the targets shared by all employees – and the consequent bonuses payable to executive directors – are set out in this report.

In particular, this year, the Committee has considered the recent conclusions from Ofwat's consultation on Board leadership, transparency and governance matters with respect to performance related pay for 2020 to 2025, and this report contains further information about how our proposals, as documented in our recent PR19 Business Plan submissions, demonstrate our commitments to the expectations of Ofwat's 'Putting the sector in balance' for performance-related executive pay.

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.

As a Company, I continue to believe that we do not discriminate on gender pay and provide equal opportunities for progression within our business. However, we published our second gender pay gap report in March this year, which showed that the difference in mean average pay is 12.1% (2018: 15.8%), 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. The Committee has agreed 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.

Going forward, the Committee is very much focused on developing the Company's remuneration policies further, including improving the linkage between executive performance and pay, oversight of workforce policies and practices and an expanded remit for the Committee which will determine if any changes to the Committee's responsibilities, activities or policies are required, especially in advance of implementing our updated performance-related executive pay policy effective from April 2020.

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
15 July 2019

Purpose of the Remuneration Committee

To determine all elements of the remuneration of senior executives and ensure they are fairly rewarded for their individual and collective contributions to the performance of the Company.

Key activities during the year

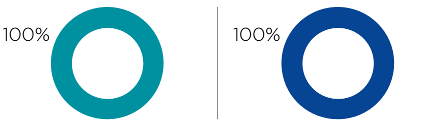
- Gender pay gap reporting and associated actions
- Reviewing and agreeing proposed changes to the long-term incentive plan
- Reviewing and agreeing changes to the employee bonus scheme from 1 April 2019
- Agreeing executive bonus structure and payments
- Annual salary review for senior executives and non-executive directors

Gender pay

At SES Water we believe that men and women are paid equally for doing equivalent jobs, regardless of gender.

Proportion of employees eligible to receive a bonus in 2018 (%)

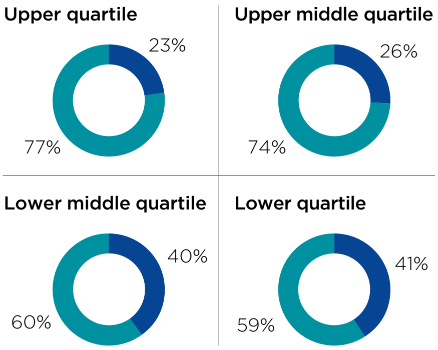
Male Female



Pay quartiles

The below chart illustrates the gender distribution across SES Water in four equally sized quartiles.

Male Female



Implementation of directors' remuneration policy in 2018/19

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2018/19.

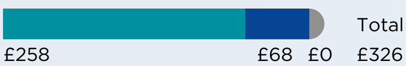
Key element	What it means
Base salary	Core element of a fixed amount, reflecting the size and scope of the role
Benefits	Appropriate and sufficient level of benefits based on individual circumstances. Includes car allowance and private medical insurance for example
Retirement benefits	Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate, noting that in the year the defined benefit scheme closed to future contributions)
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

Single total figure of remuneration for executive directors for 2018/19

Fixed pay comprises base salary, benefits and pension. Further information on the single total figure of remuneration can be seen on page 59.

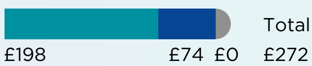
Anthony Ferrar (£'000s)

Fixed Bonus Long-term incentive



Paul Kerr (£'000s)*

Fixed Bonus Long-term incentive

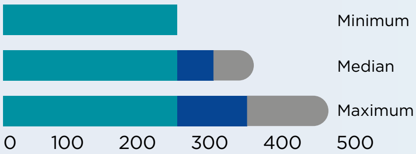


Annual bonus and long-term incentive plan (LTIP) outcomes

The charts below show the relative split of remuneration between the fixed pay (base salary, benefits and pensions), annual bonus and long-term incentive elements for each executive director under the three scenarios described on page 58.

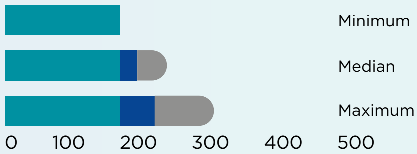
Anthony Ferrar (£'000s)

Fixed Bonus LTIP



Paul Kerr (£'000s)

Fixed Bonus LTIP



* Paul Kerr's 2019 salary and benefit were prorated to his contract start date of 14 April 2018, including a payment of £33,000 for mitigation of loss of bonus and LTIP payments earned from his previous employment.

Membership	Responsibilities
Dave Shemmans Jeremy Pelczer Murray Legg Jon Woods	• Making recommendations to the Board on the framework for remuneration of the managing director, chairman and other 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
Attendees:	*Terms of reference:*
The managing director 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.	The Committee's full terms of reference as approved by the Board can be found in the corporate governance section of the Company's website.

Remuneration policy report

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 directors' remuneration applicable for the 12 months commencing 1 April 2018 are shown in tabular format below.

The Board fully agrees with Ofwat's expectations with respect to companies being transparent about how executives are remunerated and especially how any performance-related element is linked to performance for customers and the measures are stretching in nature. The Board is committed to ensuring this transparency is provided to all stakeholders, and is committed to publishing our executive pay policy for 2020 to 2025 in our Annual Reports, together with performance results and associated pay awarded through this policy.

Since September 2018, our Remuneration Committee has continued to develop an enhanced and updated executive pay policy, reviewing specific step changes ahead of finalising it in advance of April 2020. In particular, these discussions have focused on strengthening the link between executive pay and delivery for customers, including service performance, cost savings and wider customer interests. The Board is considering various factors in adopting the expectations:

- Redefining corporate KPIs as customer pledges
- Redefining financial performance as financial resilience – in recognition that financial resilience is far broader than good financial performance
- A greater emphasis and weighting on the delivery of the customer service components
- Clearer criteria on what constitutes exceptional delivery for customers
- Retaining personal targets to allow the Board to include specific targets for individuals.

To ensure that the policy and associated 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 will be particularly demanding given our targets for 2020 to 2025 are typically in the industry upper quartile.

In addition, introducing financial resilience as opposed to simply financial performance 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.

Through our Remuneration Committee, we are committed to 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 commit to publishing our updated executive pay policy by April 2020.

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 deliver for customers in line with the top quartile of the industry.
Operation	Reviewed annually and normally fixed for 12 months commencing 1 April. Whilst executive directors are contractually entitled to an annual review of their salary, there is no entitlement to an increase as a result of this review. Salary levels are determined by the Committee taking into account a range of factors including: • Role, experience and performance • Prevailing market conditions • External benchmarks for similar roles at comparable companies • Award levels of the rest of the business
Opportunity	Increases in base salaries are reviewed in the context of salary increases across the Company as a whole. The Committee considers any reasons why increases should diverge from this benchmark, including: • Increase in scope, complexity or responsibility of the role • Increase on promotion to executive director • A salary falling significantly below market positioning
Performance metrics	Not applicable, although 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.

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

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
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. Neither executive director is a member of the defined benefit scheme
Opportunity	• The executive directors have personal pension plans
Performance metrics	• Not applicable

Remuneration policy report continued

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 published on page 95). 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	Maximum bonus opportunities are: • Managing director – 55% • Finance and regulation director – 35%
Performance metrics	The weighting of annual targets across the three main categories described above are:

	Managing director	Finance and regulation director
Customer service and operational performance	10%	10%
Financial performance	20%	7.5%
Personal targets	25%	17.5%

Customer service and operational performance targets comprise a weighted basket of measures (shared with all employees), with awards for achievement of between 90% and 105% of annual targets for each measure. Financial targets are based on the Company's budget for the year. Outperformance of budget only attracts award if overall customer service and operational targets have also been achieved in full. Personal targets reflect a combination of project, developmental and behavioural measures designed to support delivery of the Company's strategic objectives.

Explanation of performance metrics applicable to the annual bonus
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.

Customer service and operational performance targets reflect the high standards of customer service, drinking water quality, reliability of supply, asset stewardship and health and safety that our customers and other stakeholders tell us are important to them. Annual targets include the Outcome Delivery Incentives accepted by the Company as part of the PR14 Final Determination from Ofwat, and in certain cases exceed the regulatory commitment. Failure to achieve the overall operational and customer service target acts as a bar to any reward for financial performance above target.

Financial performance targets are based on achievement of the Company's annual budget, which is designed to ensure that resources are in place to deliver operational and customer service priorities as well as regulatory and other obligations and provide returns to debt and equity investors consistent with reasonable expectations. Compliance with the financial covenants associated with the Company's principal external borrowings is assumed.

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.

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 (as published on page 95). 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. Payments under the plan will be funded by shareholders from Group funds. As with all bonuses, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.
Opportunity	Incentive payments for the three-year period vary from on-target performance to maximum opportunities as shown below:

	On target	Maximum available
Managing director	35%	70%
Finance and regulation director	30%	60%

Performance metrics	Performance targets are for profit before tax and take into account forecast revenues for the appointed business (reflecting allowed revenues under Ofwat's PR14 Final Determination) and growth targets for the other businesses in the Group. The balance of targets between the Company and the other businesses in the Group will be determined by the Board on an annual basis.

Remuneration policy report continued

Remuneration scenarios for executive directors

	Fixed pay	Annual bonus	Long-term incentive
Minimum performance	Fixed elements of remuneration are base salary, benefits and pension.	No bonus.	No reward earned.
Median performance	Base salary and the value of benefits are those included in the single figure calculation on page 53.	50% of potential annual bonus achieved.	On target reward earned.
Maximum performance	Not applicable.	100% of potential annual bonus achieved for delivering at or above the highest performance against the respective bonus targets.	Maximum reward earned.

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 two years and amended to reflect market positioning and any change in responsibilities. The Committee and Managing director recommend the remuneration of the Chairman to the Board. The Chairman, Managing director and Company secretary recommend the remuneration of other non-executive directors to the Board. Non-executive directors do not receive annual bonuses 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 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 published our second gender pay gap report in March this year, which showed that the difference in mean average pay is 12.1% (2018: 15.8%), 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 23% of the core STEM workforce in the UK are women (WISE UK statistics 2017) 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 – and all employers – is to eliminate any gap. At SES Water we believe in creating a diverse and gender-balanced workforce which ensures equal opportunities for all employees and reflects the customers we serve. Some of the actions we are taking to ensure we continually challenge ourselves to be more inclusive include reviewing our recruitment process and evaluating our appraisal system to ensure that capable employees, regardless of gender, can progress. 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. In the early part of 2015, agreement was reached with employee representatives for pay awards for the five years commencing 1 April 2015 comprising:

- A 2.2% increase in basic pay and associated allowances for the year beginning 1 April 2015
- Increases in basic pay and associated allowances linked to the annual increase in the retail prices index (RPI) to the previous November (to which the majority of the Company's income is linked) for 2016/17 to 2019/20
- A guaranteed increase of 1% p.a. for 2016/17 and 2017/18, and 0.5% p.a. for 2018/19 and 2019/20
- 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 per annum.

The Remuneration Committee takes into account the annual pay award for employees – along with 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 also 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 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:

- Anthony Ferrar 1 May 2008
- Paul Kerr 14 April 2018
- John Chadwick 10 August 2009 (resigned 27 September 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
- Ryuichi Nishida 1 April 2015 (resigned 1 May 2019)
- Yoichi Sakai 1 November 2016 (resigned 6 February 2019)
- Kenji Oida 1 May 2019

Single total figure of remuneration (audited information)

The table below shows the total remuneration earned by each director in 2018/19.

£000	Base salary and fees	Taxable benefits	Annual bonus	Long-term incentive	Pension related benefits	Total
Anthony Ferrar	184	21	68	–	53	326
Paul Kerr[1]	153	13	74	–	32	272
John Chadwick	76	3	25	–	14	118
Jeremy Pelczer	65	–	–	–	–	65
Murray Legg	38	–	–	–	–	38
David Shemmans	35	–	–	–	–	35
Jon Woods	32	–	–	–	–	32
Total 2019	**583**	**37**	**167**	**–**	**99**	**886**
Total 2018	468	32	89	36	80	705

1. Paul Kerr's 2019 salary and benefit were prorated to his contract start date of 14 April 2018, including a payment of £33,000 mitigation of loss for bonus and LTIP payments earned from his previous employment.

Underlying base salaries increased broadly in line with salary increases for other Company employees. Annual bonuses were determined in accordance with the policy described on page 56, reflecting performance against the targets shown on page 60.

Anthony Ferrar, Paul Kerr and John Chadwick have personal pension plans, to which the Company made contributions. Pension-related benefits for these directors amounted to £99,000 (2018: £80,000), including £43,000 (2018: £43,000) of payments in lieu of pension contributions.

Anthony Ferrar and Paul Kerr participated in the 2018 LTIP, which covers the performance period from 2018 to 2021, and is designed to pay out in 2021. Therefore there was no payment this year under scheme rules.

Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 58. The Chairman also acts as Chairman of East Surrey Holdings Ltd, which remunerates him accordingly.

None of the other non-executive directors received any remunerations from the Company.

Percentage change in remuneration for the managing director

The table below shows the percentage change in remuneration between the years ended 31 March 2019 and 31 March 2018 for the managing director and for all employees.

	Salaries and fees	Taxable benefits	Annual incentive
Managing director	4%	6%	-6%
Average for all employees	4.5%	6%	0%

Relevant details of the annual bonus scheme

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

Topic	Target/limit	Achievement
Overall drinking water quality (%)	99.96	99.97
Service Incentive Mechanism (ranking)	Industry top half	Lower quartile
Interruptions to supply >3 hours (hours per total number of properties)	0.20	0.268
Leakage (megalitres per day)	23.7	24.1*
Health and safety – number of incidents	3	4
Potential Hazard Early Warnings (PHEWs)	Close out actions in 30 days	Achieved
ISO 14001 Environmental action plans	Non-conformances closed out or clear mitigations in place within 30 days	Not achieved
ISO 9001 Quality action plans	Non-conformances closed out or clear mitigations in place within 30 days	Not achieved
Financial	Achieve budget	Achieved

Executive directors and senior management also share two additional targets:

Topic	Target	Achievement
Number of customer contacts on taste, odour and discolouration of water	350	388
Number of meters installed at properties for first time	7,707	10,144

* Although the lower internal leakage target was not met this year, the regulatory target of 24.1 was achieved, as shown on page 22.

The weightings applied to the combined set of targets for the executive directors are shown on page 56.

Relative importance of employment costs

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

£000	**2019**	2018	% change
Employee costs	**13,686**	14,005	-0.02%
Interest paid	**11,021**	12,077	-0.09%
Capital expenditure	**25,325**	26,028	-0.03%

Murray Legg
Senior non-executive director

Statement by the Chairman of the Audit Committee

During the year the Audit Committee has been involved with the submission of the Company's PR19 Business Plan in September 2018, together with the resubmission of the plan (following Ofwat's initial assessment) in early 2019. The Committee's focus in this area has been on ensuring that appropriate assurance was provided for these submissions, including agreeing the scope, process and timetable for external assurance where appropriate, together with ensuring that the external parties utilised during the assurance process were appropriately experienced and qualified. In addition, the Audit Committee reviewed key elements of the Business Plan submissions, including performing a satisfactory review of the financeability and long-term financial resilience of the Company's plans.

However, the above activities have not distracted the Committee from its core activities in 2018/19, including ensuring compliance with statutory and regulatory requirements and that the Company has provided an enhanced long-term viability statement, together with safeguarding the highest standards of integrity, financial reporting, risk management and internal controls within the Company. Further details of these core activities during 2018/19 are provided in this report.

In addition, the Audit Committee has overseen the tender process for the Company's new external financial auditor, with KPMG – the current external financial auditor – being replaced by PwC for the year ending 31 March 2020, under mandatory auditor rotation rules.

I continue to be impressed by the insight, diligence and seriousness the Company applies to its assurance activities. 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 this year included an externally facilitated review, concluded that the Audit Committee continued to fulfil its objectives appropriately.

Murray Legg
Chairman of the Audit Committee
15 July 2019

Membership

Murray Legg

Dave Shemmans

Jon Woods

Attendees:

The Chairman, Managing director, Finance and regulation director, Quality & compliance director 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, also in attendance were the incoming auditors.

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 and assessment of their objectivity and independence

Terms of reference:

The Committee's full terms of reference as approved by the Board can be found in the corporate governance section of the Company's website.

Composition and training of the committee

Murray Legg is considered by the Board to have recent and relevant financial experience because he is a chartered accountant who has audited and advised major UK utilities and a variety of listed and unlisted companies in other sectors in a series of increasingly senior roles at PwC for over 35 years. He is also the 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. Members of the committee periodically visit water treatment works, the 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 three times during 2018/19, and in June 2019 to consider this Annual Report. 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 Finance and Regulation Director, the external auditors and, where necessary, with other members and 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 cyber security and Brexit.

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 has been performed in conjunction this year 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, together with the Board, also considered the potential effects of Brexit on the Company during the year, with particular regard to potential chemical inventories and labour constraints, and satisfied itself that the mitigation activities proposed by management were sufficient given the information available.

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

- The Company's preparation for PR19 Business Plan (and resubmission) assurance, including agreeing the scope, process and timetable for external assurance of the plan, together with ensuring that the external parties to be utilised during the assurance process were appropriately qualified and experienced
- Key elements of the Business Plan submissions, including performing a satisfactory review of the financeability and long-term financial resilience of the Company's plans
- Documents required by Ofwat to be published by the Company, including the Annual Report (incorporating regulatory accounts, performance against PR14 Final Determination performance measures, and financial resilience measures); targeted assurance plans; and the Company's wholesale, developer services and retail 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 28 and 29 of this report
- 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
- The Company's adoption of new accounting standards in the year (IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'), together with the Company's consideration of the effect of new accounting standards to be adopted in 2019/20 (IFRS 16 'Leases')
- The tender process to replace KPMG as the Company's external auditors, as required under the audit reforms effective from June 2016
- Review of compliance of the Company on Service Level Agreements with SES Business Water and other associated companies, ensuring services provided are on an arms-length basis and no cross-subsidy from the appointed business is occurring.

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 remained the same as in the prior year, noting that collection performance for debt over one year old remained consistent with the basis of the provision made. The Committee did note the weaknesses in the design and operation of systems in relation to aged debt reporting for unmeasured debtors, and the increased level of judgement that this brings to the unmeasured debt provision.

- The appropriateness of the accounting estimates and disclosures for the benefits provided to employees through the Company's Section of the Water Companies' Pension Scheme (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 recent Guaranteed Minimum Pension matters had been appropriately accounted for and reported in the Company's financial statements, together with the closure of the Company's Section of the WCPS
- 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 need for provisions for outstanding claims – the committee agreed that the basis of provisions made was prudent and realistic.

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 2030 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 recent guidance in this area as detailed in Information Notice 19/07) as set out on page 48.

Fair, balanced and understandable report

The April 2016 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, we have 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 on page 95), as well as the financial controls and audit procedures for ensuring the integrity of the accounts.

The Committee has drawn further assurance from the close personal involvement of executive directors and senior 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 SES Water. Having reviewed drafts of the Annual Report, 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 auditors

The committee approved KPMG's proposed approach for the year-end statutory audit at their meeting in March 2019. The Audit 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 Committee noted that KPMG 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 their independence.

Note 3 to the statutory accounts (page 79) shows that the fees due to KPMG all related to audit or other assurance procedures on the Company's statutory and regulatory obligations. The Committee concurred with the auditors' assessment that there are no factors which would impair their 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 auditors, including a requirement for all non-audit work likely to exceed £10,000 to be approved by the chairman of the Audit Committee.

External audit tender

During 2018/19, the Audit Committee conducted a tender process for a new external financial auditor given that the Company's incumbent auditor – KPMG – is required to rotate off after completion of the audit for the year ended 31 March 2019. The Audit Committee, led by the Audit Committee chair, conducted a thorough and open process to appoint a new external financial auditor, with the option to tender being advertised for all parties on the Company's website (although only one party ultimately tendered), and the Company's procurement department ensuring compliance with European Union procurement requirements. In addition, the Committee utilised the FRC's Audit Tender – Notes on Best Practice, when conducting the tender process.

The Audit Committee therefore, after interviewing and being satisfied on their suitability, provided the Board with the recommendation to appoint PwC, which the Board subsequently approved. A detailed evaluation process was performed by the Audit Committee prior to recommending appointment of PwC to the Board. An overall evaluation comparison based on 'confidence to deliver' and 'commercial' criteria was performed, and the assessment itself comprised (a) evaluation of the submitted tender proposal from suppliers to demonstrate their capability and experience within the water utility industry (b) a presentation to the Audit Committee chair and management and (c) client references.

The Audit Committee therefore conducted a thorough appointment process and was satisfied – with the Board – regarding PwC's proposed appointment. The Company's two shareholders were consulted throughout the tender process and are also content with the Board's decision.

Our opinion is unmodified

We have audited the financial statements of Sutton and East Surrey Water plc ("the Company") for the year ended 31 March 2019 which comprise the Profit and loss account and other comprehensive income, Balance Sheet, Cash Flow Statements, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Overview

Materiality: Financial statements as a whole	£400,000 (2018: £480,000) 4% of profit before tax (2018:5% profit before tax)
Coverage	100% (2018: 100%) of profit before tax
Risks of material misstatement vs 2018	**vs 2018**
Recurring risks	Bad debt provision ◄►
	Gross defined benefit obligation ◄►

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on date of appointment. The period of total uninterrupted engagement is for over 20 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Bad debt provision £2.3m, 2018 £2.1m. Refer to page 62 (Audit Committee Report), pages 73 to 78 accounting policy and pages 78 to 89 financial disclosures).	The water industry has a unique debtor profile mainly due to its customer base and the service provided. In order to assess the recoverability of these debts a detailed analysis of the debtor aging is required, including componentisation, as well as a complex calculation. This is considered a key audit risk because an error in just one stage of this calculation, either through an inappropriate judgement taken or human error, could result in a material misstatement to the level of provision required.	Our procedures included: • Control reperformance: with the assistance of KPMG IT specialists, we will audit the completeness and accuracy of the billing system that underpins the provision calculation; • Use our sector expertise to assess componentisation of debtor balances: Assess the breakdown of debt used in the provision calculation into components; • Our testing identified weaknesses in the design and operation of automated control in relation to the aged debt report for unmeasured debtors. As a result we expanded the extent of our detailed substantive testing over and above that originally planned. • Expected credit loss rate: Compare the movement in debtors between the aged buckets between 2017 to 2019 to determine whether a higher proportion of debt is becoming older, thus resulting in the need for a higher provision; • Historical comparison of provision rates year on year: Critically assess the provision rates set in the accounting policy by challenging the Directors regarding variances during the year as compared to past trends as well as critically assessing the rates against changes in the economy and the industry. • **Our results:** We found the provision for bad debts to be acceptable (2018 results: acceptable).
Gross defined benefit obligation £15.5m, 2018: £20.1m Refer to page 63 (Audit Committee Report), pages 73 to 78 accounting policy and pages 78 to 89 financial disclosures).	The company's retirement benefit surplus is the difference between the fair value of the pension assets £124.6m and the retirement benefit obligation £109.1m. Significant estimates are made in valuing the company's retirement benefit obligation. Small changes in assumptions and estimates used to value the company's pension obligation would have a significant effect on the company's financial position. In addition for 2019, following the judgement reached in the High Court on 26 October 2019, schemes that have not previously made an allowance for the impact of GMP equalisation will be subject to a plan amendment, requiring recognition of an adjustment for the past service cost through the income statement as at the date of the court judgement.	Our procedures included: • challenging the key assumptions supporting the company's retirement benefit obligations valuation with input from our own actuarial specialists, including comparing the discount rate, inflation rate, salary, pension increase rates and life expectancy assumptions used against externally derived data; • assessing the company's disclosure in respect of the sensitivity of the surplus to changes in the key assumptions; • assessing the valuer's credentials by evaluating the external expert's competence and independence; and • Reviewing the actuary's methodology and estimated impact of GMP equalisation and assessing reasonableness using KPMG's independent model. • **Our results:** We found the valuation of the net pension asset to be acceptable (2018 results: acceptable).

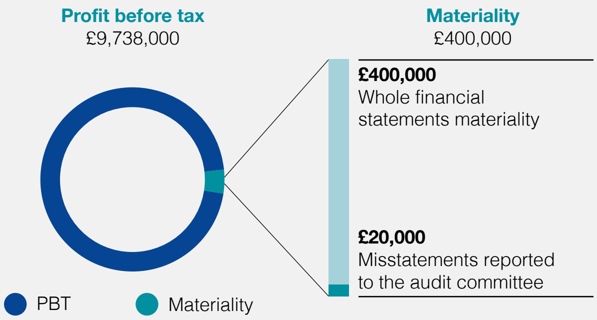
We continue to perform procedures over the classification of expenditure between operating and capital. However, following a number of years with no issues noted we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £0.4 million (2018: £0.48 million).

This has been determined with reference to a benchmark of the Company's profit before tax which represents 5% (2018: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected misstatements exceeding £20,000 (2018: £25,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The ability to refinance the revolving credit facility.

As this risk could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from this risk and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risk materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the chemical supply chain and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2018 No.40) made under the Companies Act 2006.

In our option the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the company.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

In addition to our audit of the financial statement the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review the part of the Corporate Governance Statements relating to the Company's compliance with the eleven provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in these respects.

Disclosures of Principal Risks and Long-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw to in relation to:

- the directors' confirmation within the long term viability statement (page 48) that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency and liquidity.
- the Principal risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Long-term viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matter in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that inconsistent with judgements that are reasonable at the time they were made the absence of anything to report on these statements is not a guarantee as to the Company's long term viability.

We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities

As explained more fully in their statement set out on page 64, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Company is subject to laws and regulations that directly affect the financial statements; including financial reporting legislation (including related companies legislation); distributable profits legislation and taxation legislation; and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environmental Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
15 July 2019

Profit and loss account and other comprehensive income

for the year ended 31 March

	Note	2019 £000	2018 £000
Revenue	2	**66,832**	64,970
Operating costs	3	**(48,362)**	(45,085)
Other operating income	4	**1,630**	–
Operating profit		**20,100**	19,885
Gain on sale of non-household customer accounts		**–**	2,000
Finance costs	6	**(11,021)**	(12,077)
Finance income	7	**659**	718
Profit before income tax		**9,738**	10,526
Income tax expense	8	**(2,249)**	(1,061)
Profit for the financial year		**7,489**	9,465
Other comprehensive income: items that will not be reclassified to profit or loss			
Actuarial losses on pension scheme	10	**(3,960)**	(5,471)
Movement on deferred tax relating to net pension asset		**975**	–
Other comprehensive income, net of tax		**(2,985)**	(5,471)
Total comprehensive income for the year		**4,504**	3,994

Statement of changes in equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	3,105	84,526	87,631
Total comprehensive income for the year			
Profit for the financial year	–	9,465	9,465
Other comprehensive income	–	(5,471)	(5,471)
Total comprehensive income for the year	–	3,994	3,994
Transactions with owner recorded directly in equity			
Dividends	–	(5,600)	(5,600)
Total transactions with owner	–	(5,600)	(5,600)
Balance at 31 March 2018	3,105	82,920	86,025
Balance at 1 April 2018	3,105	82,920	86,025
Total comprehensive income for the year			
Profit for the financial year	–	7,489	7,489
Other comprehensive income	–	(2,985)	(2,985)
Total comprehensive income for the year	–	4,504	4,504
Transactions with owner recorded directly in equity			
Issue of share capital	48,385	–	48,385
Dividends	–	(3,684)	(3,684)
Total transactions with owner	48,385	(3,684)	44,701
Balance at 31 March 2019	**51,489**	**83,741**	**135,230**

Balance sheet

as at 31 March

	Note	2019 £000	2018 Restated* £000
Non-current assets			
Property, plant and equipment	11	312,330	296,691
Intangible assets	12	4,482	4,345
Net Pension Scheme Assets	10	16,624	21,112
		333,436	322,148
Current assets			
Inventory	13	417	745
Debtors	14	25,518	20,140
Cash and cash equivalents	21	18,275	16,642
		44,210	37,527
Creditors: amounts falling due within one year	15	(32,211)	(29,623)
Net current assets		11,999	7,904
Total assets less current liabilities		345,435	330,052
Non-current Liabilities			
Creditors: amounts falling due after more than one year	16	(173,532)	(207,309)
Unfunded pension obligation	10	(1,095)	(1,053)
Deferred tax liabilities	18	(35,578)	(35,665)
Net assets		135,230	86,025
Capital and reserves			
Called up share capital	19	51,489	3,105
Profit and loss account		83,741	82,920
Total shareholder's funds		135,230	86,025

* See note 1

These financial statements were approved by the Board of Directors on 15 July 2019 and signed on its behalf by:

Jeremy Pelczer
Chairman

Anthony Ferrar
Managing Director

Company registered number: 02447875

Cash flow statement

for the year ended 31 March

	2019 £000	2018 £000
Cash flows from operating activities		
Profit for the year	7,489	9,465
Adjustments for		
Depreciation of tangible fixed assets	9,161	9,313
Amortisation of intangible fixed assets	360	412
Interest receivable and similar income	(659)	(641)
Interest payable and similar charges	11,021	12,001
Profit on sale of assets on disposal of property, plant and equipment	(380)	(173)
Gain on sale of customer list	–	(2,000)
Taxation	2,249	1,061
	21,752	19,973
Increase/(decrease) in trade and other debtors	(2,978)	1,882
Decrease/(increase) in inventory	328	(34)
Increase/(decrease) in trade and other creditors	2,229	(586)
Increase in provisions and employee benefits	715	274
Decrease in amounts due to fellow subsidiary companies	(2,494)	(1,433)
	(2,200)	103
Interest paid	(5,273)	(5,995)
Tax paid	(588)	(1,004)
Net cash from operating activities	21,180	22,542
Cash flows from investing activities		
Proceeds from disposal of tangible fixed assets	408	489
Proceeds from disposal of customer list	–	2,000
Interest received	54	77
Acquisition of tangible fixed assets	(24,828)	(25,599)
Acquisition of intangible fixed assets	(497)	(429)
Net cash from investing activities	(24,863)	(23,462)
Cash flows from financing activities		
Proceeds from the issue of share capital	36,000	–
Net (repayment)/proceed from loan	(27,000)	8,350
Dividends paid	(3,684)	(5,600)
Net cash from financing activities	5,316	2,750
Net increase in cash and cash equivalents	1,633	1,830
Cash and cash equivalents at 1 April	16,642	14,812
Cash and cash equivalents at 31 March	18,275	16,642

1 Basis of accounting

Sutton and East Surrey Water plc (the 'Company') is a private Company incorporated and domiciled in Redhill in the UK and is limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

In these financial statements, the Company has applied the exemptions under FRS 101 in respect of the following disclosures:

- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets
- Disclosures in respect of capital management
- Disclosures in respect of compensation of Key Management Personnel
- Exemption from presentation of third balance sheet for restatement
- Disclosure of related party transaction with wholly owned group entities
- Certain disclosures regarding revenue

The Company's ultimate parent undertaking, Sumisho Osaka Gas Water UK Ltd (SOGWUK), includes the Company in its consolidated financial statements. The consolidated financial statements of SOGWUK are prepared in accordance with IFRS and are available to the public from SOGWUK offices at Vintners' Place, 68 Upper Thames Street, London EC4V 3BJ. The Company is also consolidated into East Surrey Holdings Group, the consolidated financial statements are prepared in accordance with IFRS and are available to the public at 66-74 London Road, Redhill, RH1 1LJ.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Restatement

The balance sheet as at 31 March 2018 has been restated. There is no change to the net assets and retained earnings at 31 March 2018 as a result of the following presentational restatement:

In the prior year financial statements the pension asset and the defined benefit liability were shown as a net balance of £20,059,000 within current assets on the balance sheet. In these financial statements comparative information has been restated to present the pensions asset of £21,112,000 and the defined benefit liability of £1,053,000 gross within non-current assets and non-current liabilities, respectively. This restatement increases non-current assets by £21,112,000, reduces current assets by £20,059,000 and increases non-current liabilities by £1,053,000 with no change to net assets at 31 March 2018.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The going concern basis has been adopted for preparing the financial statements. The directors have considered the financial position of the Company and have 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 these accounts.

1 Basis of accounting (continued)

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

New Accounting Standards

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Company has adopted IFRS 15 in the year ended 31 March 2019 on a modified retrospective approach. The Company already recognises revenue over the period in which the service is delivered and there has been no material impact on adoption of this standard.

IFRS 9 'Financial Instruments' was adopted by the Company on 1 April 2018 on a modified retrospective approach. The adoption of IFRS 9 has not resulted in any significant changes to the Company's existing accounting practices, the Company has revised its policy for providing for doubtful debt where debt is less than six months old, and there has been no material impact on adoption of this standard.

Adopted IFRS not yet applied

IFRS 16 'leases' replaces IAS 17 'leases' and is effective for periods commencing on or after 1 January 2019. The Company will therefore adopt the standard on 1 April 2019. IFRS 16 details the recognition and measurement of lease arrangements in order to assess the amount, timing and certainty of cashflows as a result of leases. The Company has reviewed its current plant and equipment, whereby the majority of land, buildings, office equipment and vehicles are fully owned by the Company and therefore any impact of this IFRS is considered immaterial.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses for bad debts. A bad debt provision is established by applying expected recovery rates to debts outstanding at the end of the accounting period. Under IFRS 9 the expected credit loss model, takes into account the expected recovery rate determined by the age of the debt and the payment history.

Cash

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses. Amortised cost is calculated by taking into account any issue costs.

Trade and other creditors

Trade and other creditors are recognised at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Revenue recognition

The core principle of IFRS 15 'Revenue from Contracts with Customers' is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

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

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability. The element of charges that are raised that is considered uncollectable at the point the charge is raised is excluded from revenue.

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

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

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

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

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

For metered supply of water services the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water services charges unbilled at year end.

Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL.

2. Non water income (Developer services)
The Company provides a number of services to developers to assist them with connecting new properties and other property development to our water network. Details of developer services charges are available on the Company's website and described below:

a.) Requisitions

Requisitions relate to the Company laying new mains (and associated infrastructure) in order to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself.

b.) Service connections

Service connections are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote for the work to be undertaken (directly related to the estimated cost to the Company). Customers are required to pay in advance for a connection, thus creating a contract liability for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the quote price, with the Company's performance commitment being to connect the property the Company's network. The ultimate transaction price is the quote, adjusted for the actual cost to the Company to the work, with revenue being recognised once the job has been completed and the property has been connected to the Company's network.

c.) Diversions

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

1 Basis of accounting (continued)

Revenue recognition (continued)

d.) Infrastructure charges

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

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

The transaction price is the amount of consideration the Company expects to receive given that the infrastructure charge per connection is set each year as a fixed price (based on the historic amounts spent on related network enhancements over the previous five years).

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

3. Non-appointed revenue

The Company has a number of income streams from its non-appointed business, including:

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

b.) Income from the Company's garage, which provides servicing, repair and MOT facilities to third parties. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

Empty Properties

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing charges only. Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

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

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

Provision for doubtful debts

Provisioning for doubtful debt is made based on the debt's age and the recovery process already applied to the debt. For debts subject to formal recovery action through the courts historical recovery rates are used, whilst debt that has been subject to court action is provided for at 50% of the comparable age band used for court debt. All balances over four years old are fully provided for.

Bad debt write-off policy

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

Tangible fixed assets

Tangible fixed assets have been revalued to fair value on 1 April 2014, the date of transition to FRS 101, and this is considered the deemed cost. Tangible fixed assets are stated at deemed cost less accumulated depreciation and accumulated impairment losses. The cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. The Company considers a substantial period of time for the construction of an asset in the water industry to be five years.

Fixed assets are capitalised and depreciated when they are considered to be operationally complete, which means that the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Infrastructure assets – mains and fresh water reservoirs
Infrastructure assets comprise a network of systems relating to water distribution.

Mains – repairs, maintenance and replacements
The mains network is considered to consist of multiple assets. It consists of different areas and is capable of being separated and divided up. IAS 16 requires all repairs and maintenance to be charged to the profit and loss account. Repairs and maintenance include the day-to-day servicing of an item. The costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The mending of a burst main is considered to be a repair as long as the subsequent work extends to the replacement of no more than one length of pipe. The relining of a main is considered to be maintenance which is the work needed to keep a main in good condition.

IAS 16 requires replacements to be capitalised. When more than one length of pipe is laid it is considered a replacement, and not a repair, and it is therefore capitalised.

Perished mains replaced during the period are disposed of from the fixed asset records.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful life of each part of an item of tangible fixed assets. Freehold land is not depreciated. The estimated useful lives are as follows:

	Years
Infrastructure assets	
Fresh water reservoirs	150
Mains	100
Non-infrastructure assets	
Buildings, boreholes and service reservoirs	40-100
Plant and machinery	10-25
Motor vehicles and sundry plant	3-15

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Goodwill
Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment.

Research and development
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can reliably measure the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

Impairment of financial and non-financial assets

Financial assets (including trade and other debtors)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1 Basis of accounting (continued)

Impairment of financial and non-financial assets (continued)

Non-financial assets

The carrying amount of the Company's non-financial assets, which includes fixed assets and goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Employee benefits

The Company accounts for pensions and other post-employment benefits under IAS 19(R). The Group operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the period during which services are rendered by employees.

Defined benefit plans

The pension scheme asset or liability in the balance sheet represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date.

The present value of the defined benefit obligation and the cost of providing benefits under defined benefit plans is determined on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method, discounted at an interest rate equivalent at measurement date to the rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

The pension cost in the income statement includes current and past service cost and the effect of any settlements and curtailments. A net finance charge or credit is recognised within finance costs in the income statement and comprises the net of the expected return on pension scheme assets and the interest on pension scheme liabilities.

All actuarial gains and losses and the related current and deferred taxation are recognised in other comprehensive income.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Significant accounting judgements

The key estimates and areas of judgement required in the preparation of these accounts are detailed in the Audit Committee Report on page 61.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Dividends

Dividends are only recognised as a liability at the date of the balance sheet to the extent that they are declared prior to year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Revenues

	2019 £000	2018 £000
Unmeasured water income	**25,098**	25,728
Measured water income	**27,225**	24,723
Wholesale income from retailers (non-household)	**9,682**	9,217
Other water income	**761**	1,085
Non-water income	**1,884**	1,536
Non-appointed income	**2,182**	2,681
	66,832	64,970

All of the Company's activity are derived from one class of business and one geographical location.

Wholesale income includes income from retailers operating in the competitive retail market for non-household customers. The revenue is primarily from supply of wholesale water to SES Business Water, following the sale of the Company's right to trade with non-household customers in April 2017.

3 Net operating costs

	2019 £000	2018 £000
Wages and salaries	**10,576**	9,592
Social security costs	**1,109**	1,038
Other pension costs	**2,430**	1,727
Raw materials and consumables	**2,187**	2,050
Depreciation/amortisation of owned assets	**9,521**	9,725
Fees payable to Company's auditor for the audit of annual accounts	**75**	62
Fees payable to Company's auditor and associates for other services		
– Audit of regulatory accounts	**45**	22
– Other assurance services	**6**	5
Other operating charges	**22,413**	20,864
	48,362	45,085

Wages and salaries disclosed above are shown net of capitalised costs. During the year £1,964,636 (2018: £1,647,689) of employment costs were capitalised within fixed asset costs.

	2019 £000	2018 £000
Net operating costs can be analysed as:		
Cost of sales	**31,724**	31,978
Administration expenses	**16,638**	13,107
	48,362	45,085

4 Other operating income

	2019 £000	2018 £000
Proceeds from insurance claim	**1,250**	–
Profit on sale of fixed assets other than land	**380**	–
	1,630	–

5 Employees

	2019 Number	2018 Number
The average number of persons employed (including directors) during the year was as follows:		
Water supply	297	290
Other	1	1
	298	291

97 of the 298 employees were female (2018: 92 of 291). Directors' remuneration is disclosed on page 59 in the Remuneration Committee report, including the highest paid director.

6 Finance cost

	2019 £000	2018 £000
Index linked bond	4,713	4,556
Indexation of bond	5,160	5,570
Bond fees amortisation	446	442
Other	303	543
Preference share dividend	399	966
Total other interest payable and similar expenses	11,021	12,077

7 Finance income

	2019 £000	2018 £000
Expected return on pension scheme assets	3,073	3,182
Interest on post retirement liabilities	(2,559)	(2,541)
Other interest receivable	145	77
Total interest receivable and similar income	659	718

8 Tax expense

Recognised in the profit and loss account	2019 £000	2018 £000
UK corporation tax		
Current tax on income for the year	770	780
Adjustments in respect of prior years	590	155
Total current tax	1,360	935
Deferred tax		
Origination and reversal of timing differences	1,097	594
Movement in timing difference due to change in the tax rate and laws	–	98
Pensions scheme	(97)	(566)
Changes in tax rate and laws		
– Adjustments in respect of previous years	(111)	–
Total deferred tax charge	889	126
Tax on profit	2,249	1,061

The UK corporation tax rate for the year ended 31 March 2019 was 19% (2018: 19%). A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. These reductions will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated using the rate expected to be applicable when the deferred tax liability is forecast to crystallise.

The 2019 Adjustments in respect of prior years relates mainly to the £500,000 (2018:Nil) provision included for tax charges that may be incurred under the Corporate Interest Restriction.

Reconciliation of effective tax rate

The current tax charge for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018:19%). The differences are explained below:

	2019 £000	2018 £000
Profit for the year	7,489	9,465
Total tax expense	2,249	1,061
Profit before tax	9,738	10,526
Tax using the UK corporation tax rate of 19% (2018: 19%)	1,850	2,000
Effects of:		
Non-deductible expenses	57	–
Profit on disposal of fixed assets	(310)	(34)
Preference dividends paid	76	184
Disposal of non-household customer list	–	(380)
Pension adjustment	72	(167)
Other	40	9
Capital allowances for the year exceeding depreciation	(811)	(832)
Capitalised expenditure allowable on accounts basis	(204)	–
Adjustments to tax charge in respect of previous years	590	155
Change in tax on deferred tax balances	889	126
Total tax expenses included in profit or loss	2,249	1,061

9 Dividends

	2019 £000	2018 £000
Ordinary dividend paid 3 April 2017 (6.4 pence per share)	–	2,000
Ordinary dividend paid 28 June 2018 (5.8 pence per share) (27 June 2017 (5.8 pence per share))	1,800	1,800
Ordinary dividend paid 21 December 2018 (0.4 pence per share) (2017/18: 20 December 2018 (5.8 pence per share))	1,884	1,800
Ordinary shares – equity dividends paid (6.2 pence per share) (2018 (18.0 pence per share))	3,684	5,600

The ordinary dividend paid on 3 April 2017 was declared prior to the end of the year ended 31 March 2017.

10 Employee benefits

Water Companies Pension Scheme

The Company participates in both a defined contribution scheme Group Personal Pension Plan (GPPP) available for all employees and a defined benefit pension scheme, the Water Companies Pension Scheme (WCPS), for qualifying employees. This is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme (the Section). The Section's funds are administered by trustees and are independent of the Company's finances.

Active members' benefits accrued on a final salary basis until 1 April 2013, when it switched to a career average basis.

The scheme closed to the future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 16 years.

The closure of the scheme to future accrual of benefits is a curtailment event under IAS 19(R). However, as both accrued benefit for active members and deferred pensions increase each year by inflation, not salary growth, the closure has had no effect on the value placed on the liabilities of the scheme and so there is no resultant curtailment gain or loss.

The funding target for the scheme is to hold assets equal in value to the accrued benefits. If there is a shortfall against this target, then the Company and the Trustees will agree on deficit contributions to meet this deficit over a period. Although the scheme is currently in surplus, there is a risk to the Company that adverse experience in the future could lead to a requirement for the Company to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years by an independent actuarial advisor; the next valuation is due to be carried out as at 31 March 2020. During the year ended 31 March 2019 the Company paid employer contributions of £673,000 into the Section (year ended 31 March 2018: £845,000). As the scheme is in surplus and now closed to the accrual of future benefits the estimated amount of total employer contributions expected to be paid into the Section for the year ended 31 March 2019 is £nil.

10 Employee benefits (continued)

Water Companies Pension Scheme (continued)

The latest formal actuarial valuation of WCPS was undertaken as at 31 March 2017. The results of this valuation were updated to the accounting date by an independent qualified actuary in accordance with IAS 19(R).

Following the judgment in the Lloyds Banking Group court case on 26 October 2018, the Trustees will need to equalise Guaranteed Minimum Pensions (GMPs) in the Section. As a result, the independent actuarial advisor has increased the defined benefit obligation at 31 March 2019 by £600,000 to allow for this. The £600,000 charge has been recognised as a past service cost in the profit and loss account.

The key IAS 19(R) assumptions used for the Company's section of WCPS are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of IAS 19(R) liabilities and the surplus of assets above IAS 19(R) liabilities (which equal the gross pension asset).

Assumptions	2019	2018
Retail prices index inflation	3.5%	3.4%
Consumer prices index (CPI) inflation	2.8%	2.7%
Discount rate	2.3%	2.5%
Pension increases (CPI)	2.8%	2.7%
Pension increases (CPI capped at 5%)	2.8%	2.7%
Salary growth	n/a	2.9%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.8 years (2018: 28.3 years).

Following the closure of the scheme to future accrual of benefits, salary growth is no longer relavant to the Section's financial position.

Plan assets	31 March 2019 Fair value £000	31 March 2018 Fair value £000
Equities	–	9,155
Diversified growth funds	–	17,794
Liability driven investments	89,719	85,501
Emerging market multi-asset funds	–	6,555
Absolute Return Bonds	34,891	–
High yield bonds	–	5,816
Cash	–	368
Total	124,610	125,189

The investment strategy is set by the Trustees of the Section. The current strategy is to invest in a combination of lower risk assets e.g liability driven investments, which respond to factors such as changes in interest rate. The majority of the Section's assets are held within instruments with quoted market prices in an active market.

The Section does not invest in property occupied by the Company or in financial securities issued by the Company.

Changes in the present value of the defined benefit obligations are as follows:

	2019			2018		
	WCPS £000	**Unfunded £000**	**Total £000**	WCPS £000	Unfunded £000	Total £000
Defined benefit obligation at 1 April	**104,077**	**1,053**	**105,130**	103,406	1,039	104,445
Employer's portion of current service cost	**881**	**–**	**881**	974	–	974
Past service cost	**600**	**–**	**600**	–	–	–
Interest cost	**2,533**	**26**	**2,559**	2,516	25	2,541
Contributions from section members	**10**	**–**	**10**	19	–	19
Actuarial loss	**5,123**	**58**	**5,181**	2,690	32	2,722
Benefits paid	**(5,238)**	**(42)**	**(5,280)**	(5,528)	(43)	(5,571)
Defined benefit obligation at 31 March	**107,986**	**1,095**	**109,081**	104,077	1,053	105,130

The Company has also made provision (31 March 2019: £1,095,000 (31 March 2018: £1,053,000)) for an unfunded portion of a former director's pension entitlement. This defined benefit obligation is revalued annually in accordance with IAS 19(R) using the same assumptions as WCPS and is included in the Company's defined benefit obligation (above).

Changes in the fair value of the Section assets are as follows:

	2019 £000	2018 £000
Fair value of section assets at 1 April	**125,189**	129,608
Interest on Section assets	**3,073**	3,182
Actual return less interest on plan assets	**1,221**	(2,749)
Contributions by the Company	**673**	845
Contributions by Section members	**10**	19
Benefits paid	**(5,238)**	(5,528)
Section expenses	**(318)**	(188)
Fair value of section assets at 31 March	**124,610**	125,189

The Company has considered the Section's deeds and rules, and as a result believes that it would be entitled to a full refund of the surplus assets following the final payment to the last beneficiary of the scheme. As such there is no restriction on value of the surplus that can be recognised in the Company's balance sheet.

	2019 £000	2018 £000
Fair value of Section assets	**124,610**	125,189
Present value of defined benefit obligations	**(107,986)**	(104,077)
Pension asset for SES Water Section of WCPS (non-current asset)	**16,624**	21,112
Unfunded former director's pension entitlement (non-current liabilities)	**(1,095)**	(1,053)
Net pension position	**15,529**	20,059
Deferred tax liability on net pension position (Note 18)	**(2,640)**	(3,410)

10 Employee benefits (continued)

Water Companies Pension Scheme (continued)

The net surplus recognised in the balance sheet has moved over the year as follows:

	2019			2018		
	WCPS £000	**Unfunded £000**	**Total £000**	WCPS £000	Unfunded £000	Total £000
Net WCPS pension asset recognised in the balance sheet at 1 April	**21,112**	**(1,053)**	**20,059**	26,202	(1,039)	25,163
Amount recognised in profit and loss account	**(1,259)**	**(26)**	**(1,285)**	(496)	(25)	(521)
Amount recognised in other comprehensive income	**(3,902)**	**(58)**	**(3,960)**	(5,439)	(32)	(5,471)
Benefits paid by Company	**–**	**42**	**42**	–	–	–
Contributions paid	**673**	**–**	**673**	845	–	845
Net WCPS pension asset recognised in the balance sheet at 31 March	**16,624**	**(1,095)**	**15,529**	21,112	(1,096)	20,016

The amounts recognised in the income statement are as follows:

	2019			2018		
	WCPS £000	**Unfunded £000**	**Total £000**	WCPS £000	Unfunded £000	Total £000
Employer's part of current service charge	**(881)**	**–**	**(881)**	(974)	–	(974)
Past service cost	**(600)**	**–**	**(600)**	–	–	–
Section expenses	**(318)**	**–**	**(318)**	(188)	–	(188)
Net interest credit	**540**	**(26)**	**514**	666	(25)	641
Net expense recognised in profit and loss account for pensions schemes **(1,259)**	**(26)**	**(1,285)**	(496)	(25)	(521)	

In addition to the amounts above, the Company paid contributions to defined contribution schemes amounting to £1,152,000 (year ended 31 March 2018: £956,412) recognised as an expense in the profit and loss account.

The amounts recognised immediately in other comprehensive income are as follows:

	2019			2018		
	WCPS £000	**Unfunded £000**	**Total £000**	WCPS £000	Unfunded £000	Total £000
Net actuarial (losses) in the year due to:						
Changes in financial assumptions	**(4,559)**	**(43)**	**(4,602)**	(2,889)	(27)	(2,916)
Changes in demographic assumptions	**(985)**	**(13)**	**(998)**	–	2	2
Experience adjustments on benefit obligations**421**	**(2)**	**419**	199	(7)	192	
Actual gain/(loss) on Section assets relative to interest on Section assets	**1,221**	**–**	**1,221**	(2,749)	–	(2,749)
Net actuarial losses recognised in other comprehensive income	**(3,902)**	**(58)**	**(3,960)**	(5,439)	(32)	(5,471)

The following table illustrates the sensitivity of the defined benefit obligation to some of the significant assumptions as at 31 March 2019:

		Effect on obligation (£000)	
Movement		-0.1%	+0.1%
Price inflation	£000	(1,400)	1,400
Discount rate	£000	1,700	(1,700)
Year		-1	+1
Life expectancy	£000	(4,500)	4,500

These sensitivities have been calculated by the independent actuarial advisor to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market condition at the accounting date. This is considered unlikely in practice – for example, a change in the discount rate is unlikely to occur without any movement in the value of the assets held by the scheme.

11 Property, plant and equipment

	Land £000	Collection reservoir £000	Buildings boreholes & service reservoirs £000	Plant & machinery £000	Mains £000	Motor vehicles & sundry plant £000	Assets in the course of construction £000	Total £000
Cost								
1 April 2018	5,088	2,533	118,100	106,222	219,929	9,048	30,394	491,314
Additions	–	–	517	521	2,648	391	20,751	24,828
Disposals	–	–	(2)	–	–	(150)	–	(152)
31 March 2019	**5,088**	**2,533**	**118,615**	**106,743**	**222,577**	**9,289**	**51,145**	**515,990**
Depreciation								
1 April 2018	–	(381)	(32,320)	(64,449)	(90,974)	(6,499)	–	(194,623)
Charge for year	–	(21)	(2,243)	(4,521)	(1,520)	(856)	–	(9,161)
Disposals	–	–	2	–	–	122	–	124
31 March 2019	**–**	**(402)**	**(34,561)**	**(68,970)**	**(92,494)**	**(7,233)**	**–**	**(203,660)**
Net book value								
31 March 2019	**5,088**	**2,131**	**84,054**	**37,773**	**130,083**	**2,056**	**51,145**	**312,330**
31 March 2018	5,088	2,152	85,780	41,773	128,955	2,549	30,394	296,691

Land comprises freehold land at £5,088,000 (2018: £5,047,897) and long leasehold land at £40,648 (2018: £40,648).

12 Intangible fixed assets

	Software £000	Goodwill £000	Work in progress £000	Total £000
Cost				
1 April 2018	5,512	19,454	356	25,322
Additions	–	–	497	497
Transfer	85	–	(85)	–
Disposals	–	–	–	–
31 March 2019	**5,597**	**19,454**	**768**	**25,819**
Amortisation				
1 April 2018	(4,610)	(16,367)	–	(20,977)
Charge for the year	(360)	–	–	(360)
Disposals	–	–	–	–
31 March 2019	**(4,970)**	**(16,367)**	**–**	**(21,337)**
Net book value				
31 March 2019	**627**	**3,087**	**768**	**4,482**
31 March 2018	902	3,087	356	4,345

13 Inventory

	2019 £000	2018 £000
Raw materials and consumables	**417**	745

14 Debtors

	2019 £000	2018 £000
Trade debtors	**17,248**	13,885
Amounts owed by fellow subsidiary undertakings	**5,318**	2,918
Other debtors	**2,285**	1,577
Prepayments and accrued income	**667**	1,760
	25,518	20,140

15 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**1,984**	4,529
Amounts owed to fellow subsidiary undertakings	**1,706**	1,800
Other creditors	**9,530**	16,383
Group relief payable	**1,136**	454
Other taxes and social security payable	**488**	460
Accruals and deferred income	**8,944**	5,094
Contract liabilities	**7,410**	–
Deposits from developers	**1,013**	903
	32,211	29,623

16 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
2.874% Secured index-linked bond 2027-2031	**159,930**	154,323
3.25% Irredeemable debentures	**50**	50
5% Irredeemable debentures	**52**	52
7.8% Cumulative irredeemable preference shares of £1	**–**	12,384
Long-term bank loans	**13,500**	40,500
	173,532	207,309

7.8% Cumulative irredeemable preference shares of £1 were converted on 29 August 2018 when ordinary shares were issued to the holder of the preference shares (see Note 19).

A £30 million long-term bank loan was fully repaid on 19 October 2018 (see Note 17).

17 Financial instruments and interest bearing loans and borrowings

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of its business. The Company does not have any exposure to currency risk, since all activities are conducted in the UK and all borrowings are denominated in pound sterling.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations. At the balance sheet date there were no significant concentrations of credit risk.

Interest risk

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

The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company. The bond was issued on 21 March 2001 and is secured upon the shares of Sutton and East Surrey Water plc. In the event of default the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method. Unamortised issue costs of £5,290,537 (2018: £5,736,566) are netted against the carrying value of the bond, and included within the effective interest charge.

The bond, debentures and preference shares are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate, and longer-term borrowings will be at a margin above LIBOR.

The effective interest rates of borrowings are disclosed in Note 15 above and in Table 1E of the Regulatory accounts on page 110.

1. Loans and other borrowings

Maturities	Note	2019 £000	2018 £000
Loans and other borrowings			
– Between one and two years		13,500	–
– Between two and five years		–	40,500
– More than five years		160,032	166,809
		173,532	207,309
Reported as			
– Creditors: amounts falling due after more than one year	16	173,532	207,309
– Creditors: amounts falling due within one year	15	–	–
		173,532	207,309

2. Undrawn committed borrowing facilities
Undrawn borrowing facilities available to the Company are set out below. The facilities available at the balance sheet date are unsecured.

	2019 £000	2018 £000
Expiring		
– in one year or less	1,000	1,000
– Between one and two years	11,500	–
– Between two and five years	–	14,500
	12,500	15,500

3. Fair values
The fair values together with the carrying amounts are shown in the balance sheet as follows:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
2.874% Secured index-linked bond 2027-2031	159,930	233,419	154,323	217,535

Fair value is determined using a quoted market bid price.

There is no material difference between fair values and carrying amounts within the balance sheet for all other financial assets and liabilities.

18 Deferred tax liability

	2019 £000	2018 £000
At 1 April 2018	**35,665**	35,539
Credited to reserves	**(975)**	–
Charged to profit and loss for the year	**888**	126
At 31 March 2019	**35,578**	35,665

The elements of deferred tax are as follows:

	2019 £000	2018 £000
Difference between accumulated depreciation, amortisation and capital allowances	**32,959**	31,952
Other timing differences	**(21)**	303
Deferred tax liability on net pension asset (see Note 10)	**2,640**	3,410
Total deferred tax liability	**35,578**	35,665

The expected future rates of UK corporation tax which are reflected in the Company's deferred tax position are set out in Note 8.

19 Share capital

Ordinary shares of 10p each	2019 number	2018 number	2019 £000	2018 £000
Allotted, called up and fully paid				
At 1 April 2018	**31,046,440**	31,046,440	**3,105**	3,105
Issued during the year:				
29 August 2018	**123,845,930**	–	**12,384**	–
19 October 2018	**360,000,000**	–	**36,000**	–
At 31 March 2019	**514,892,370**	31,046,440	**51,489**	3,105

7.8% Cumulative irredeemable preference shares of £1 each
(Shown as a liability (see Note 17))

	2019 number	2018 number	2019 £000	2018 £000
Allotted, called up and fully paid				
At 1 April 2018	**12,384,593**	12,384,593	**12,384**	12,384
Issued during the year				
29 August 2018 – conversion of preference shares to ordinary shares	**(12,384,593)**	–	**(12,384)**	–
At 31 March 2019	**–**	12,384,593	**–**	12,384

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

The holders of irredeemable preference shares were entitled to receive cumulative dividends but were not entitled to vote at meetings of the Company.

On 29 August 2018 the Company issued 123,845,930 ordinary shares at par to the holder of the preference shares on cancellation of the preference shares.

On 19 October 2018 the Company issued 360,000,000 ordinary shares at par (£36 million proceeds were received) to the existing shareholder. The proceeds were used to repay debt and fund the Company's capital programme.

20 Cash flow from management of liquid resources

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Movement in short-term deposits	**(1,078)**	1,747
Interest received on deposits	**54**	28
Movement in year	**(1,024)**	1,775
Liquid resources at 1 April 2018	**14,845**	13,070
Liquid resources at 31 March 2019	**13,821**	14,845

21 Cash and cash equivalents

	31 March 2019 £000	31 March 2018 £000
Liquid resources – deposits exceeding 24 hours duration	**13,821**	14,845
Cash	**4,454**	1,797
Cash and cash equivalents	**18,275**	16,642

Within liquid resources there is £5,334,565 (2018: £5,196,086) of restricted cash relating to the secured index-linked bond.

22 Commitments

	2019 £000	2018 £000
Contracted capital commitments authorised by the directors	**13,300**	16,976

23 Related parties

The only material disclosable trading transactions between the Company and related parties, other than those disclosed in Note 1 of the Regulatory accounts on page 134, was a contribution of £48,514 (2018: £60,427) to Water UK and pension management fees of £20,000 (2018: £20,000) to the Water Companies (Pension Fund) trustee.

24 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company's parent company is SESW Holding Company Limited, whose registered office is 66-74 London Road, Redhill, Surrey RH1 1LJ. The ultimate parent company and the smallest and largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Limited whose consolidated accounts are available at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ.

The Company is also consolidated within East Surrey Holdings Group; the consolidated financial statements are prepared in accordance with IFRS and are available to the public at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

Direction and aspirations

As a Board we work with executive management to ensure that our long-term strategy reflects the priorities of our customers and other stakeholders. The Board is involved at each stage of the process of developing both short and long-term plans – from initial customer engagement, through development of each commitment to the final testing of acceptability with customers. In doing so each independent non-executive director champions a key theme in our strategy and works with executives in developing these themes into a company-wide strategy.

We published our Long-Term Vision in January 2018 and this complements our shorter-term plans for delivering a high-quality service for our customers. These plans are built around a series of pledges and commitments to deliver the service expected by our customers across the various touch points we have on their lives – our aspiration is to ensure a continuous supply of high-quality water, accurate and affordable bills, dealing with enquiries efficiently, reducing our impact on the environment and helping communities thrive.

Alongside the significant involvement from customers in developing our strategy and the plan to deliver it, we have taken on board the views of stakeholders at a local, regional and national level. Over the last year members of the Board have participated in engagement with government, regulators and the Water Resources in the South East regional planning group. Board members also met with, and attended meetings of, the Customer Scrutiny Panel to seek an independent view of its interaction with the executive team in reviewing our future plans and how performance is reported.

Performance

This Annual Report summarises the progress we have made in year four of the current five year plan period 2015-2020 in delivering against the commitments in that plan. It also explains the challenges we have faced and what plans we have therefore put in place to make sure that we meet all commitments in the final year of the current period. This includes the decision we took as a Board in the last year to make significant investment in our digital and customer relationship management and billing systems with a large proportion of the investment needed coming directly from the Company's shareholders in recognition of the need to make improvements for the benefit of our customers.

Our future plans, including the benefits that will be driven by this investment, are set out in our Business Plan for 2020 to 2025 which is currently being assessed by Ofwat.

While we await the results of Ofwat's assessment, we continue to execute against the plan that we have developed with our customers and stakeholders. This includes the following actions being taken:

- Making investment now so that we can meet our sector leading performance commitments to reduce bursts and cut supply interruptions
- Putting in place the arrangements needed, both within the Company and with external partners, to make sure that we can meet our commitments to reduce leakage and install meters at rates significantly greater than we have delivered in the past
- Reducing the cost of the day-to-day activity we carry out through adopting the latest technologies and thinking differently about how we process data and information
- Starting the process of receiving CommunityMark accreditation from Business in the Community and improving the ecology at our treatment works has enabled us to become the 14th organisation in the UK to have sites recognised under the Wildlife Trusts' Biodiversity Benchmark
- Reducing our gearing (the proportion of debt we hold) to c61% at 31 March 2019, well within the levels that Ofwat has deemed as reasonable
- Developing and signing up to the long-term commitments made by the sector in its Public Interest Commitment, published in April 2019.

In addition to the summary of performance provided in this Annual Report, the Board reviews the performance of the Company on a monthly basis, reviewing the results of performance against financial and non-financial objectives. This takes the form of direct review and challenge with the executive directors and senior management in face-to-face sessions with the Board, to understand both historic and forecast performance, and the initiatives in place to ensure the latter remain on track to meet or outperform budgeted objectives.

Being a responsible business

We appreciate the criticality of transparency about how businesses like ours, which deliver essential public services, are run. As a Board we have taken steps in the last year to provide those that are interested with additional information. This includes:

- Providing concise and clear summaries of our Business Plan at each stage of its development
- Publishing minutes of Board meetings
- Being transparent about our financial arrangements through the publication of 'Keeping it clear' and through providing information on our dividend policy, tax strategy, matters reserved for the Board and executive remuneration within this Annual Report
- Keeping our financial structure simple and UK based in the UK
- Reporting openly about our performance in this Annual Report and explaining our plans where we are not delivering the levels of service expected and continuing to produce a concise online version.

Further information is available below on how the Board continues to meet Ofwat's leadership, transparency and governance principles and how the Company is meeting its legal, statutory and regulatory obligations.

Leadership, transparency and governance

Meeting Ofwat's 2014 principles

The Company and its Board meets Ofwat's 2014 Board Leadership, Transparency and Governance principles. It does so by conducting itself in the highest standard that is expected of a provider of an essential public service. It applies best practice approaches in relation to transparency and governance as advised by the Financial Reporting Council and in doing so meets standards beyond what is legally required of a company of its size and structure. The table below provides further information on how each principle is being met.

Principle	How the Company is meeting it
Reporting must meet or exceed the standards set out in the Disclosure and Transparency Rules.	The Company takes its responsibility to openness and transparency seriously. The information disclosed in this Annual Report, and its online version, and the additional performance and financial information available on our website aim to provide information in an assessible format. The disclosures made in this Annual Report meet the aims of the Disclosure and Transparency Rules. In addition, each customer receives an annual communication from us outlining aspects of performance.
The regulated company must act as if it is a separate public listed company.	The Board is instrumental in setting the direction of the Company including in the preparation of the Company's five-year Business Plan submitted to Ofwat in September 2018. Certain matters are reserved for the Board and delegated authority is granted to individual members or executive team members in a controlled manner. A detailed review of these reserved matters is provided in the Corporate governance section of this Annual Report on page 40.
There must be significant independent representation on the Board. In line with best practice, Boards should have the appropriate balance of skills, experience, independence and knowledge of the Company.	Independent non-executive directors are the largest group on the Board as shown on page 33 in the summary of directors and advisors. Board members come from a broad range of backgrounds and provide challenge and a different perspective. The Board's skills and experience is explained on pages 44 to 46 in the Corporate governance section. Board effectiveness is evaluated every two years and is discussed on page 46 in the Corporate governance report.
The Chair must be independent of management and investors.	As explained on page 38 of the Corporate governance report the chairman is not listed as independent because he was nominated by Sumitomo Corporation on its acquisition of the Company but the Board has continued to find him independent of character. The Chairman is serving his final three-year term of office and his successor will be independent of management and investors.
Board committees, including but not limited to audit and remuneration committees, will operate at the regulated company level. There should be a majority of independent members on the audit and remuneration committees.	All committees operate at the regulated company level. The committee reports on pages 50 to 63 show that the majority of members on each committee are independent non-executives and the Audit and Remuneration Committees are chaired by independent non-executive directors. Attendance is reported on page 46 of the Corporate governance report.
The group structure must be explained in a way that is clear and simple to understand.	The group structure is relatively simple and is explained clearly in a diagram on page 20 in the business overview. The ownership structure is also explained in 'Keeping it clear' the Company's guide to explain its finances and governance in a clear and understandable way.

Preparing for Ofwat's 2019 objectives

As noted above, the Board considers that it is exceeding the minimum requirements in Ofwat's 2014 principles on Board leadership, transparency and governance, and in doing so is already meeting Ofwat's updated objectives which came into force on 1 April 2019 as noted below.

Ofwat objective and underlying provisions	Board's view
Purpose, values and culture – the regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves	
The Board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public services.	We have noted at the start of this annual Board statement the work that the Board promotes to ensure the Company's purpose, strategy and values are clearly established and adhered to throughout the company. Going forward, this focus on purpose and reflection of the role of the Board in defining such matters will continue to be considered at all Board meetings, and in particular at our separate Board Strategy Day discussions.
The Board makes sure that the company's strategy, values and cultures are consistent with its purposes.	
The Board monitors and assess values and culture to satisfy itself that behaviours throughout the business is aligned with the company's purpose. Where it finds misalignment, it takes corrective actions.	
Companies' annual reporting explains the Board's activities and any corrective actions taken. It also includes an annual statement from the Board focusing on how the company has set its aspirations and performed for all those it serves.	As noted in both our Corporate governance report, and within this statement, the Board's activities are clearly explained and we have already included this signed statement to explain the Board's focus on the Company's vision, aspirations and strategy.
Standalone regulated company – The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term	
The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable) and explains how these are consistent with the Board of the regulated company having full responsibility for all aspects of the regulated company's business; including the freedom to set, and accountability for, all aspects of the regulated company strategy.	We have expanded our disclosures in this year's Annual Report to be more transparent about matters reserved for the Board and how the Board of the regulated company has full responsibility for the regulated company's business. No matters are reserved solely for shareholders or other holding companies.
Board committees, including but not limited to audit, remuneration and nomination committees, report into the Board of the regulated company, with final decisions made at the level of the regulated company.	As noted in the Corporate governance report, all committees report into the Board of the regulated entity and final decisions are made at the regulated company level.
The Board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholding, and ensures that the influence of third parties does not compromise or override independent judgement.	Our Corporate governance report discusses in detail the focus of the regulatory company Board, and how Board matters are discussed and reviewed utilising the skills and objectivity of the entire Board, with no areas of judgement being compromised by the influence of third parties. This includes the Board's monitoring of directors' interests and potential transactions with associated companies.

Ofwat objective and underlying provisions	Board's view
Board leadership and transparency – the Board leadership and approach to transparency and governance matters engenders trust in the regulated company and ensures accountability for their actions	
Regulated companies should publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders.	We believe we have made significant progress in this area in recent publications and this Annual Report and there are more details below on current status and future areas of focus.
An explanation of group structure.	Included on page 20 of this Annual Report.
An explanation of dividend policies and dividends paid, and how these take into account remove of delivery for customers and other obligations (including to employees).	This is contained within the Directors' report in this Annual Report, although as noted in our PR19 Business Plan, we will be further enhancing the transparency around the decisions taken when implementing this dividend policy each year.
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.	This is contained within the 'Managing our risks' section of this Annual Report.
The Annual Report includes details of Board and committee membership, number of times met, attendance at each meeting and where relevant the outcome of votes cast.	We have included these matters within our current Corporate governance and committee reports in the Annual Report, and we will consider further enhancements to transparency of key outcomes.
An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	These matters relating to executive pay policy are included within our current Remuneration Committee report although – as noted in our PR19 Business Plan and the current Remuneration Committee report - further enhancements to linkage of executive pay and performance, and reporting of such matters, is being prepared for implementation from 1 April 2020 onwards.

Ofwat objective and underlying provisions	Board's view
Board structure and effectiveness – Board and their committees are competent, well run and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customers and stakeholder needs	
Board and Board committees have appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the Board room and how this need is addressed.	As noted in our Corporate governance and Nomination Committee reports, we believe that the Board and its committees have the appropriate balance of skills, experience and independence, together with knowledge of the Company and customer expectations.
Independent non-executive directors are the largest single group in the Board.	We adhere to this provision.
The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the Board and executive responsibility for running the business.	As noted in our Corporate governance report, while our chairman was not independent upon appointment, the Board has judged that he is independent in character and action, and there is explicit division of responsibilities.
There is an annual evaluation of the performance of the Board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met, the approach is reported in the annual report and any weaknesses are acted on and explained.	As described in our Corporate governance report, an evaluation of Board effectiveness is performed every two years which we believe is appropriate to a Company of our size. In the current year, this effectiveness review has been facilitated by an external party, which we will look to utilise in the future.
There is a formal, rigorous and transparent procedure for new appointments which is led by the Nomination Committee and supports the overarching objective.	We adhere to a rigorous appointment procedure for new directors as noted in our Nomination Committee report.
To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company Board to meet Ofwat ahead of a formal appointment being made.	We continue to apply this provision, with both of our recent non-executive director appointments meeting with Ofwat.
There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.	We adhere to this provision.

Approved by the Board of Directors and signed on their behalf on 15 July 2019:

Jeremy Pelczer
Chairman

Anthony Ferrar
Managing director

Murray Legg
Senior non-executive director

Certificate of adequacy including statement on sufficiency of financial resources and facilities

The directors certify that in their opinion:

- The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment)
- The Company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to enable it to carry out those activities
- All contracts entered into with an associated companies include all necessary provisions and requirements concerning the standard of services to be supplied by the Company, to ensure that it is able to meet its obligations as a water undertaker.

In providing this certificate, the directors have taken into account:

- Acceptance of the 2014 Final Determination by the Board
- A budget and capital expenditure programme for 2019/20 approved by the Board
- The committed borrowing and overdraft facilities available to the Company until 2020, of which £11.5 million is unutilised at 31 March 2019, together with recent completion of the renewal of the Company's five year revolving credit facility
- Cash balances of £18 million at 31 March 2019
- Experienced senior management team, with wide knowledge of the water industry, and a capable and motivated workforce
- Formal risk management and governance arrangements, monitored by the Audit Committee and Board.

Statement on sufficiency of non-financial resources

The directors confirm on page 36 of the Directors' report that as at 31 March 2019 the Company was in compliance with paragraph 3.1 of Condition K of its Instrument of Appointment, ensuring that the Company has sufficient rights and assets available to enable a special administrator to run the business.

Risk and compliance statement

The Company provides an essential service to its customers. The quality and availability of water are our customers' highest priorities. To ensure a continued supply of high quality drinking water we are required to meet a number of regulatory and legal obligations.

The directors confirm that in their opinion the Company:

- Has a full understanding of all its relevant statutory, licence and regulatory obligations
- Is meeting all its relevant statutory, licence and regulatory obligations
- Has taken steps to understand and meet the expectations of its customers
- Has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations
- Has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

In preparing the statements above the directors note that:

Statutory, licence and regulatory obligations

- The Company has a Compliance Code in place (available on its website and distributed to all employees) which is reviewed annually and an internal audit is carried out to confirm compliance, including compliance with the requirement to trade with associates at arm's length
- Assurance has been provided that the Company has available to it sufficient financial and non-financial resources, as per the requirement in the Company's Instrument of Appointment
- The Company's regulatory accounts confirm that the Company maintains an investment grade credit rating
- Required regulatory disclosures have been made below
- The independent auditor's report from KPMG LLP (available on pages 65 to 69) confirms that the strategic and directors' reports, included within this Annual Report, have been prepared in accordance with the Companies Act 2006 and the information contained within them is consistent with the financial statements.

Expectations of customers

- The Board receives reports on feedback from customers. The Company has talked directly to customers about their views on Company performance both now and what they want to see in the future through our online community, a regular telephone and online survey, targeted engagement for our Business Plan development, through our education activity and through daily contact with customers both over the phone and out in the field
- The Company has also continued to engage with a range of stakeholders impacted by its activity at a community, regional and national level
- The Company is delivering its five-year plan built around the five aims described in our performance report which reflect customers' expectations to maintain or improve levels of service
- Over the year the majority of our commitments under the five aims in our business plan have been met as summarised on pages 22 to 23:
- The Board meets regularly to review Company performance and receives monthly performance information, enabling it to challenge the executive team
- The Company has a Customer Scrutiny Panel whose duties include advising, scrutinising and challenging the Company in its development of plans for meeting their customers' priorities, including encouraging the Company to consider the environment and wider society in a customer context and the panel's activity over the year is reported on pages 98 to 99
- The Company's technical advisor, Mott MacDonald, has provided a statement, available on the Company's website, on the Company's compliance with its requirements on reporting of performance and cost assessment data in this Annual Report.

Processes and systems of control

- The Company operates a system of internal control, described on page 46 of the Corporate governance report statement, that meets the requirements of the UK Corporate Governance Code
- Reporting processes are accredited to the International Standard ISO 9001:2015 Quality Management System standard
- The Company's annual assurance plan follows the requirements of Ofwat's Company Monitoring Framework and is available on the Company's website.

Identifying, managing and mitigating risks

- Risk management is embedded in the Company culture and the monitoring and control systems in place include a twice-yearly review of risks and mitigating actions by the Audit Committee
- Consideration of the financial and operational impact of a range of severe but plausible risks is carried out by the Audit Committee with the current risks and mitigations described on pages 28 and 29 of the strategic report
- The Board is aware of its obligation to highlight any material emerging or existing risks to Ofwat in a timely manner
- The financial and operational viability of the Company out to 2030 has been considered and is described in the long-term viability statement on page 48 in the Corporate governance report.

Additional regulatory disclosures

The remuneration policy of directors and how this was applied in the year to 31 March 2019 is explained on page 59 in the Remuneration Committee report.

Each director confirms on page 36 in the Directors' report that the requirement in relation to provision of information to the Company's auditor has been met.

The dividend policy for the appointed business and how it has been applied is outlined in the directors' report on page 35.

The tax strategy for the appointed business is the same as the strategy outlined for the Company on page 47 in the Corporate governance report.

The long-term viability statement is included in the corporate governance report on page 48.

Approved by the Board of Directors and signed on their behalf on 15 July 2019:

Jeremy Pelczer
Chairman

Anthony Ferrar
Managing director

Murray Legg
Chairman of the Audit Committee

Statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the directors to:

a.) Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and systems of planning and internal control for the next 12 months. The directors have issued a certificate under Condition I of the Licence - see pages 95 to 96.

b.) Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water undertaker. The directors have issued a certificate under Condition I of the Licence - see pages 95 to 96.

c.) Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities. The directors hereby confirm that there were no changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities, during the year ended 31 March 2019.

d.) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length. This has been confirmed within 'Information in respect of transactions with any other business or activity of the appointee or any associated company' on page 134.

e.) Keep proper accounting records, which comply with Condition F. The directors of the company hereby confirm that the company has kept proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the Sutton and East Surrey Water plc statutory financial statements.

In addition, paragraph 3.1 of Condition K of the Instrument of Appointment requires directors to confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company.

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K at the end of the financial year and this has been confirmed in the certificate on pages 95 to 96 of the regulatory accounts.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant information of which the company's auditor is unaware; and

2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 section 418 of the Companies Act 2006.

Approved by the Board of Directors and signed on their behalf on 15 July 2019:

Jeremy Pelczer	**Anthony Ferrar**	**Murray Legg**
Chairman	Managing director	Chairman of the Audit Committee

An independent voice on our performance

> It has been an intensive and challenging year for the CSP, but we believe we have ensured that customer priorities have positively impacted the current performance and future plans of the Company.

Graham Hanson
Chairman of the Customer Scrutiny Panel

The Customer Scrutiny Panel (CSP) is a group of stakeholders that reflect the interests and expectations of customers. The diverse membership includes customer representative organisations such as CCWater, statutory water and environmental regulators including the Environment Agency, local authorities, businesses and regional environment and countryside groups. More information about the panel, including member biographies and terms of reference, is available on the Company's website.

The panel has a key role to act as a champion for the customers of SES Water and to make sure that the Company understands what customers expect from their water company. The panel, including its Chair, is independent of both SES Water and Ofwat, the economic regulator for the water sector, although it has a close working relationship with both organisations.

The panel advises, scrutinises and challenges the Company in its development of plans for meeting their customers' priorities, including encouraging the Company to consider the environment and wider society in a customer context. It also plays a role in monitoring the Company's performance on delivery of its current commitments and challenging progress on improvement plans.

Scrutinising the Company's Business Plan

Every five years water companies submit their business plans to Ofwat. As most people cannot choose their water supplier, one of the economic regulator's duties is to set the price, investment and service package that customers receive. They do this every five years and must balance the interests of customers and stakeholders while ensuring that companies can pay for the services they are committing to deliver.

As part of this process, the CSP's remit is to provide independent challenge to the Company and independent assurance to Ofwat on the quality of the Company's customer engagement and the extent to which the results are driving decision making and being reflected in the plan.

During the year the CSP met with SES Water senior management at eight formal meetings, as well as a number of further sub-groups and informal meetings, to review the Company's performance against its existing commitments and to review, discuss and challenge progress and output from the business planning process.

The business planning activity was therefore a significant focus of the panel's activity this year, whereby the CSP submitted its own independent assurance report to Ofwat (available on the Company's website) in September 2018, alongside SES Water's business plan submission, with a further update in March 2019 in response to the Company's re-submitted plan following initial feedback from Ofwat. The CSP is pleased to report that during the business planning process there has been a positive working relationship between SES Water and the CSP, with effective meeting and review processes agreed and implemented to enable the panel to fulfil its objectives while maintaining its independence. This has included adequate and appropriate access to senior management and the Board, including private meetings with independent non-executive directors.

The CSP provided robust challenge and advice throughout the process which SES Water welcomed and acted on. This included changes to the customer research approach, outcomes and measures of success, improvements to the clarity of the Company's communication with its customers as well as updates to the final plan where appropriate. As a result, the CSP considers that the plan strikes a reasonable balance between meeting statutory obligations, maintaining current strong performance and accounting for customer feedback on affordability.

This enabled the CSP to conclude within its assurance report to Ofwat that:

- The customer engagement and research was appropriate, subjected to CSP and third party review and followed good industry practice
- The plan and its resulting impact on bills appropriately incorporates the views of its customers
- The plan is focused on a series of outcomes that reflect a sound understanding and reasonable balance of different customer and stakeholder priorities, including:
  - Further reductions in supply interruptions, burst mains and leakage
  - Investment in improving overall water network resilience
  - Doubling the number of customers supported by the Water Support Scheme
  - Actions to further protect and enhance the environment
  - Efficiency savings, innovation and investment to achieve improvements while reducing bills in real terms

While the CSP provided an overall positive assurance, there were a limited number of challenges provided for Ofwat's consideration:

- Despite a stretching target to reduce how much water people use, average usage will remain high compared to other water companies
- Excessive leakage will remain a key customer concern, despite SES Water being one of the best performers in this area and committing to go further
- The Company's impressive innovation culture has largely resulted in short-term solutions, leaving scope for more ambition and learning from other companies
- Specific customer engagement on the acceptance of impacts of Outcome Delivery Incentives (ODIs) on customer bills was not undertaken
- There was an imbalance of non-financial ODIs compared to Ofwat guidance with insufficient rationale

Ofwat considered the CSP's report as part of its initial assessment of the Business Plan, to which SES Water responded in their March 2019 re-submission. Ofwat's primary challenge was around SES Water's costs of delivering their plan, with some areas being significantly more costly than Ofwat's view of what is considered efficient. While it is not the CSP's remit to audit or assure SES Water's costs and finances, the panel did highlight its interest in how the Company will communicate its approach to cost efficiency and also seeking CSP engagement regarding any impacts (positive or negative) further efficiencies might have on key outcomes for customers.

Scrutinising performance

On a quarterly basis the CSP meets with SES Water to monitor and challenge performance against agreed targets. Based on this robust review, the CSP notes positively that overall the Company has again met most of its performance commitments during the year with ongoing strong performance in managing leakage, burst mains and water quality. Supply interruptions, normally a further strong area, was impacted by a large burst in Merstham in May 2018. The key underperformance remains the Service Incentive Mechanism (SIM) score which again has not met target, although the CSP noted the positive progress of the Customer Experience Transformation Programme and the broader range of improving customer service metrics. This measure remains a key CSP concern where we will closely monitor progress and results going forward as the new Ofwat measure of customer satisfaction - C-MeX - is introduced.

Conclusion

Overall, it has been an intensive and challenging year for the CSP, but one in which we believe we have ensured that customer priorities have positively impacted the current performance and future plans of the Company. Going forward the CSP will continue to robustly monitor and challenge SES Water on the progress of delivering the plan. In the short-term this will include further focus on:

Environmental actions and opportunities, including plans for a new Environmental Scrutiny Panel

Increased customer engagement as part of putting communities at the heart of the business

Monitoring the Company's strategic approach and priorities such as incentivising customers to use less water and the impact of activity to improve customer service

> **the CSP notes positively that overall the Company has again met most of its performance commitments during the year with ongoing strong performance in managing leakage, burst mains and water quality.**

The following regulatory accounts and notes form part of our Annual Report.

These accounts and notes thereto are published to comply with the requirements of Condition F of the Instrument of Appointment (the ‘Licence’) of Sutton and East Surrey Water plc, trading as SES Water.

The regulatory accounts separate the results of Sutton and East Surrey Water plc into appointed and non-appointed activities.

Appointed activities are defined in Condition A of the Licence to be the ‘functions of’ and the ‘duties imposed on’ a water undertaker by the Water Industry Act 1991. Appointed activities are consequently those activities that are necessary in order for the Company to fulfil its functions and duties as a water undertaker.

In general, non-appointed activities are activities for which either the water undertaker is not a monopoly supplier (for example, the provision of billing and collection services for another undertaker) or the activity involves the optional use of an asset owned by the appointed business (for example, the provision of vehicle maintenance services to the public).

These accounts have been prepared in accordance with Regulatory Accounting Guidelines issued by the Water Services Regulatory Authority, ‘Ofwat’.

The accounting policies adopted for these regulatory accounts are the same as these set out in the financial statements except where a different treatment is required in order to comply with the Regulatory Accounting Guidelines. The differences between statutory and RAG definitions are explained after each relevant table.

The allocation of costs between operating costs, capital expenditure and capital maintenance is based on RAG 2, RAG 3, RAG 4, and normal accounting practice.

All costs are extracted directly from the Company’s accounting systems, with appropriate activity codes already assigned. Allocations for indirect costs between wholesale and retail, within wholesale between the sub-service categories of water resources, raw water distribution, water treatment, and treated water distribution, and within retail between measured and unmeasured activities, are undertaken using appropriate activity drivers as required by Regulatory Accounting Guidelines and in accordance with the ‘Accounting Separation Methodology Statement’, as published on the Company’s website.

The following regulatory accounts tables prepared in accordance with the Regulatory Accounting Guidelines are grouped into the following categories:

- Tables 1A to 1F – Regulatory financial reporting tables showing financial information aligned to the way in which price controls have been set.
- Tables 2A to 2K – Price control and additional segmental reporting tables which explain in more detail the revenue and costs to allow stakeholders to review performance against final determinations from Ofwat.
- Tables 3A to 3D – Performance summary tables providing information on the performance of the appointed business against the performance commitments and outcome delivery incentives.
- Tables 4A to 4H – Additional regulatory information showing financial and non-financial information.

Tables 4J, 4L, 4P, 4Q, 4V provide additional financial and non-financial information and are published alongside this Annual Report on our website.

Opinion

We have audited the sections of tables within Sutton and East Surrey Water plc's Regulatory Accounts for the year ended 31 March 2019 ("the Regulatory Accounts") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water, the operating cost analysis for retail (table 2C), the historical cost analysis of tangible fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by tariff type (table 2G not completed in line with RAG 4.08), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3S) and the additional regulatory information in tables 4A to 4W.

In our opinion, Sutton and East Surrey Water plc's Regulatory Accounts have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2), set out on page 100.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounts below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Regulatory Accounts are separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounts on pages 104 to 135 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Regulatory Accounts and the audit section below. As a result, the Regulatory Accounts may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounts is not appropriate; or
- the directors have not disclosed in the Regulatory Accounts any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounts are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Regulatory Accounts other than the Regulatory Accounting Statements within the Regulatory Accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Regulatory Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 97, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the company's Regulatory Accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 1 and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 22 May 2019, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
15 July 2019

1A – Income statement

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Revenue	**66,832**	(1,729)	(2,211)	**(3,940)**	**62,892**
Operating costs	**(48,362)**	33	559	**592**	**(47,770)**
Other operating income	**1,630**	–	–	**–**	**1,630**
Operating profit	**20,100**	**(1,696)**	**(1,652)**	**(3,348)**	**16,752**
Other income	**514**	1,696	–	**1,696**	**2,210**
Interest income	**145**	–	(39)	**(39)**	**106**
Interest expense	**(11,021)**	–	–	**–**	**(11,021)**
Other interest expense	**–**	–	–	**–**	**–**
Profit before tax and fair value movements	**9,738**	**–**	**(1,691)**	**(1,691)**	**8,047**
Fair value gains/(losses) on financial instruments	**–**	–	–	**–**	**–**
Profit before tax	**9,738**	**–**	**(1,691)**	**(1,691)**	**8,047**
UK corporation tax	**(1,360)**	–	321	**321**	**(1,039)**
Deferred tax	**(889)**	–	–	**–**	**(889)**
Profit for the year	**7,489**	**–**	**(1,370)**	**(1,370)**	**6,119**
Dividends	**(3,684)**	**–**	**600**	**600**	**(3,084)**

The differences between statutory and Regulatory Accounting Guidelines (RAGs) are provided in the notes on page 105.

Tax analysis

	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
Current year	**770**	–	(321)	**(321)**	**449**
Adjustments in respect of prior years	**590**	–	–	**–**	**590**
UK corporation tax	**1,360**	**–**	**(321)**	**(321)**	**1,039**

A reconciliation of actual tax payable to forecast tax in the PR14 Final Determination is provided in the notes on page 106.

Reconciliation of effective tax rate for appointed activities
The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below.

	2019 £000
Profit before tax	**8,047**
Tax using the UK corporation tax rate of 19%	**1,529**
Effects of:	
Non-deductable expenses	**57**
Profit on disposal of fixed assets	**(310)**
Preference dividends paid	**76**
Pension adjustment	**72**
Capital allowances for the year exceeding depreciation	**(811)**
Capitalised expenditure allowed on an accounts basis	**(204)**
Adjustments to tax charge in respect of previous years	**590**
Other	**40**
Total current tax	**1,039**

1 Accounting policies

The accounting policies adopted for these regulatory accounts are the same as those set out on pages 73 to 89 except where a different treatment is required in order to comply with Regulatory Accounting Guidelines (RAGs) published by the Water Services Regulation Authority.

Cost allocation to individual price controls

The allocation of costs between operating costs, capital expenditure and capital maintenance is based on RAG 2, RAG 3, RAG 4, and normal accounting practice. Items of a capital nature costing less than £250 are written-off to operating expenditure. This practice has not changed from previous years.

Leakage control costs, including those incurred through third parties and by the Company's own employees, are treated as operating expenditure.

All costs are extracted directly from the Company's accounting systems, with appropriate activity codes already assigned. Allocations for indirect costs between wholesale and retail, within wholesale between the sub-service categories of water resources, raw water distribution, water treatment, and treated water distribution, and within retail between household and non-household activities, are undertaken using appropriate activity drivers as required by Regulatory Accounting Guidelines and in accordance with the Company's 'Accounting Separation Methodology Statement', as published on the Company's website.

2 Explanation of differences between statutory and RAG definitions

Note	Capital Contributions (a)	STOR Revenue (b)	Meter reading income (c)	IFRS 15 derecognised revenue	**Total differences as per Table 1A**
Revenue	(1,696)	(68)	17	18	**(1,729)**
Operating costs	–	68	(17)	(18)	**33**
Other operating income	–	–	–	–	**–**
Operating profit	(1,696)	–	–	–	**(1,696)**
Other income	1,696	–	–	–	**1,696**
Profit before tax	–	–	–	–	**–**

a) Grants and contributions treated as revenue in the statutory accounts, but as other income in the regulatory accounts (Ofwat clarification).
b) Income from National Grid's Short Term Operating Regime (STOR) for use of the appointed business standby generators to assist with peak electricity demand – treated as revenue in the statutory accounts, but as negative operating expenditure in the regulatory accounts.
c) Income from reading meters on behalf of retailers is offset against operating costs in the statutory accounts, but as revenue in the regulatory accounts.
d) IFRS 15 de-recognised revenue: IFRS 15 requires the de-recognition from revenue of amounts billed that are deemed uncollectable at the point of billing. This adjustment reinstates the amount in order to present total amounts billed to customers in the regulatory accounts.

3 Reconciliation of actual tax payable to tax included in the PR14 Final Determination

The table below compares forecast taxable profit and each forecast adjustment to taxable profit that was included in the PR14 Final Determination financial model with actual taxable profit and actual adjustments that applied in 2017/18.

	PR14 FD tax reconciliation £000	Actual tax in 2018/19 £000	Difference £000
Taxable profit	10,358	8,047	(2,311)
Adjustments for:			
Depreciation	8,671	9,521	850
Other adjustments to taxable profit	(643)	365	1,008
Other adjustments	(7,454)	(1,630)	5,824
Preference share dividends	–	399	399
P&L expenditure not allowable as a deduction from taxable trading profits	10	300	290
Correction to interest on debt gearing adjustment & equity adjustment	4,612	–	(4,612)
Capital allowances	(13,982)	(13,790)	192
Adjustment for pension contributions	17	378	361
Grants and contributions taxable on receipts and amortisation of grants and contributions	452	(1,073)	(1,525)
Adjustment to tax charge in respect of previous year	–	2,950	2,950
Resulting in:			
Adjusted trading profit for tax	2,041	5,467	3,426
Tax based on UK corporation tax assumed in FD	408	1,094	685
Difference due to actual UK corporation tax	(20)	(55)	(34)
Tax based on UK corporation tax rate of 19%	388	1,039	651

Details of the tax strategy for SES Water is set out in the Corporate Governance Report (see page 47).

1B – Statement of comprehensive income

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Profit for the year	**7,489**	–	(1,370)	**(1,370)**	**6,119**
Actuarial losses on post employment plans	**(3,960)**	–	–	**–**	**(3,960)**
Other comprehensive income	**975**	–	–	**–**	**975**
Total comprehensive income for the year	**4,504**	**–**	**(1,370)**	**(1,370)**	**3,134**

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1C – Statement of financial position

for the 12 months ended 31 March 2019

		Adjustments			
	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
Non-current assets					
Fixed assets	**312,330**	–	–	–	312,330
Intangible assets	**4,482**	–	–	–	4,482
Investments – loans to group companies		**–**	–	–	–
–					
Investments – other	**–**	–	–	–	–
Financial instruments	**–**	–	–	–	–
Retirement benefit assets	**16,624**	–	–	–	16,624
Total non-current assets	**333,436**	**–**	**–**	–	333,436
Current assets					
Inventories	**417**	–	–	–	417
Trade & other receivables	**25,518**	–	(605)	(605)	24,913
Financial instruments	**–**	–	–	–	–
Cash & cash equivalents	**18,275**	–	(3,168)	(3,168)	15,107
Total current assets	**44,210**	**–**	**(3,773)**	(3,773)	40,437
Current liabilities					
Trade & other payables	**(31,075)**	–	489	489	(30,586)
Capex creditor	**–**	–	–	–	–
Borrowings	**–**	–	–	–	–
Financial instruments	**–**	–	–	–	–
Current tax liabilities	**(1,136)**	–	321	321	(815)
Provisions	**–**	–	–	–	–
Total current liabilities	**(32,211)**	**–**	**810**	810	(31,401)
Net current assets	**11,999**	**–**	**(2,963)**	(2,963)	9,036
Non-current liabilities					
Trade & other payables	**–**	–	–	–	–
Borrowings	**(173,532)**	–	–	–	(173,532)
Financial instruments	**–**	–	–	–	–
Retirement benefit obligations	**(1,095)**	–	–	–	(1,095)
Provisions	**–**	–	–	–	–
Deferred income – grants & contributions	**–**	–	–	–	–
Deferred income – adopted assets	**–**	–	–	–	–
Preference share capital	**–**	–	–	–	–
Deferred tax	**(35,578)**	–	–	–	(35,578)
Total non-current liabilities	**(210,205)**	**–**	**–**	–	(210,205)
Net assets	**135,230**	**–**	**(2,963)**	(2,963)	132,267
Equity					
Called up share capital	**51,489**	–	–	–	51,489
Retained earnings & other reserves	**83,741**	–	(2,963)	(2,963)	80,778
Total equity	**135,230**	**–**	**(2,963)**	(2,963)	132,267

Cash attributable to non-appointed activities at 31 March 2019 was £3.168 million. Cash held by the Company was £4.454 million. Appointed activities are, therefore, deemed to be £1.286 million.

1D – Statement of cash flows

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Operating profit	**20,100**	(1,696)	(1,652)	**(3,348)**	**16,752**
Other income	**–**	1,696	–	**1,696**	**1,696**
Depreciation	**9,161**	–	–	**–**	**9,161**
Amortisation – grants & contributions	**360**	–	–	**–**	**360**
Changes in working capital	**(3,326)**	–	(289)	**(289)**	**(3,615)**
Pension contributions	**1,126**	–	–	**–**	**1,126**
Movement in provisions	**–**	–	–	**–**	**–**
Profit on sale of fixed assets	**(380)**	–	–	**–**	**(380)**
Cash generated from operations	**27,041**	–	**(1,941)**	**(1,941)**	**25,100**
Net interest paid	**(5,219)**	–	(39)	**(39)**	**(5,258)**
Tax paid	**(588)**	–	253	**253**	**(335)**
Net cash generated from operating activities	**21,234**	–	**(1,727)**	**(1,727)**	**19,507**
Investing activities					
Capital expenditure	**(25,325)**	–	–	**–**	**(25,325)**
Grants & Contributions	**–**	–	–	**–**	**–**
Disposal of fixed assets	**408**	–	–	**–**	**408**
Other	**–**	–	–	**–**	**–**
Net cash used in investing activities **(24,917)**	–	–	**–**	**(24,917)**	
Net cash generated before financing activities	**(3,683)**	–	**(1,727)**	**(1,727)**	**(5,410)**
Cash flows from financing activities					
Equity dividends paid	**(3,684)**	–	600	**600**	**(3,084)**
Net loans repaid	**(27,000)**	–	–	**–**	**(27,000)**
Cash inflow from equity financing	**36,000**	–	–	**–**	**36,000**
Net cash generated from financing activities	**5,316**	–	**600**	**600**	**5,916**
Increase in net cash	**1,633**	–	**(1,127)**	**(1,127)**	**506**

1E – Net debt analysis at 31 March

for the 12 months ended 31 March 2019

	Interest rate risk profile			
	Fixed rate £000	Floating rate £000	Index linked £000	**Total £000**
Borrowings (excluding preference shares)	102	13,500	159,930	**173,532**
Preference share capital				**–**
Total borrowings				**173,532**
Cash				**(4,454)**
Short-term deposits				**(10,656)**
Net debt				**158,422**
Gearing				**60.91%**
Adjusted gearing				**66.15%**
Full year equivalent nominal interest cost	6	231	8,901	**9,138**
Full year equivalent cash interest payment	6	231	4,748	**4,985**
Indicative interest rates				
Indicative weighted average nominal interest rate	5.88%	1.71%	5.39%	**5.22%**
Indicative weighted average cash interest rate	5.88%	1.71%	2.87%	**2.87%**
Weighted average years to maturity	25.00	1.14	10.17	**9.48**

Adjusted gearing reflects the definitions of the financial covenants associated with the Company's index-linked bond and disregards preference shares, unamortised bond issuance costs and cash balances other than those held in ring-fenced accounts specified by the bond documentation.

We do not use derivative financial instruments to hedge exposure to credit and interest rate risks arising in the normal course of business and do not have any exposure to currency risk, since all activities are conducted in the UK and all borrowings are denominated in pound sterling. We have therefore not included Ofwat's Financial Derivatives table in this Annual Report.

1Fa – Financial flows

for the 12 months ended 31 March 2019

					12 Months ended 31 March 2019	
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Return on regulatory equity	5.40	4.52	5.40	4,486	3,755	3,755
Actual performance adjustment 2010-15	1.64	1.37	1.64	1,362	1,140	1,140
Adjusted return on regulatory equity	7.04	5.89	7.04	5,849	4,895	4,895
Regulatory equity				83,077	83,077	69,532
Financing						
Gearing	–	0.78	0.93	–	648	648
Variance in corporation tax	–	(0.90)	(1.07)	–	(745)	(745)
Group relief	–	–	–	–	–	–
Cost of debt	–	0.10	0.12	–	85	(85)
Hedging instruments	–	–	–	–	–	–
Sub total	**7.04**	**5.88**	**7.02**	**5,849**	**4,883**	**4,883**
Operational performance						
Totex out/(under) performance	–	–	–	–	–	–
ODI out/(under) performance	–	(0.18)	(0.22)	–	(150)	(150)
Retail out/(under) performance	–	(2.49)	(2.97)	–	(2,066)	(2,066)
Other exceptional items	–	–	–	–	–	–
Operational performance total	**–**	**(2.67)**	**3.19**	**–**	**(2,216)**	**(2,216)**
Total earnings	**7.04**	**3.21**	**3.84**	**5,849**	**2,667**	**2,667**
RCV growth from RPI inflation	**3.06**	**3.06**	**3.06**	**2,542**	**2,542**	**2,128**
Total shareholder return	**10.10**	**6.27**	**6.90**	**8,391**	**5,209**	**4,795**
Net dividend	**4.00**	**3.21**	**3.83**	**3,323**	**2,664**	**2,664**
Retained value	**6.10**	**3.06**	**3.06**	**5,068**	**2,545**	**2,131**
Dividends reconciliation						
Gross dividend	4.00	3.21	3.83	3,323	2,664	2,664
Interest receivable on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**3.21**	**3.83**	**3,323**	**2,664**	**2,664**

This information has been produced in accordance with guidance provided by Ofwat.

The analysis for 2018-19 indicates that:

- Actual total shareholder returns were less than Ofwat assumed in setting price limits under both the Company's actual capital structure and Ofwat's notional capital structure
- This was primarily due to the Company investing more on Retail functions and incurring a higher corporation tax bill than was allowed in price limits.

The analysis needs to be interpreted with care for a number of reasons, including:

- All financial figures are presented at 2012/13 prices (as required by Ofwat) and are not therefore directly comparable to numbers reported elsewhere in the Annual Report
- The ODI performance penalty of 0.22% does not take into account an expected penalty for performance against the Service Incentive Mechanism, because the magnitude is not capable of estimation without full visibility of other companies' performance and Ofwat's methodology for determining the magnitude
- The return shown differs from that shown for Return of Regulatory Equity (RoRE) in Table 4H on page 132, not least because the figure in Table 4H is presented on a cumulative basis for the last three years combined.

1Fb – Financial flows

for the 12 months ended 31 March 2019

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Average for four years ended 31 March 2019 Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Return on regulatory equity	5.65	3.74	5.65	4,529	2,996	2,996
Actual performance adjustment 2010-15	1.70	1.12	1.70	1,363	901	901
Adjusted return on regulatory equity	7.35	4.86	7.35	5,891	3,898	3,898
Regulatory equity				80,154	80,154	53,029
Financing						
Gearing	–	1.69	2.55	–	1,353	1,353
Variance in corporation tax	–	(1.11)	(1.67)	–	(886)	(886)
Group relief	–	–	–	–	–	–
Cost of debt	–	(0.35)	(0.61)	–	(281)	(322)
Hedging instruments	–	–	–	–	–	–
Sub total	**7.35**	**5.09**	**7.62**	**5,891**	**4,084**	**4,043**
Operational performance						
Totex out/(under) performance	–	–	–	–	–	–
ODI out/(under) performance	–	0.17	0.26	–	136	136
Retail out/(under) performance	–	(1.35)	(2.04)	–	(1,082)	(1,082)
Other exceptional items	–	0.56	0.84	–	445	445
Operational performance total	**–**	**(0.63)**	**(0.94)**	**–**	**(501)**	**(501)**
Total earnings	**7.35**	**4.47**	**6.68**	**5,891**	**3,583**	**3,542**
RCV growth from RPI inflation	**2.50**	**2.50**	**2.50**	**2,004**	**2,004**	**1,326**
Total shareholder return	**9.85**	**6.97**	**9.18**	**7,895**	**5,586**	**4,867**
Net dividend	**4.00**	**3.35**	**5.07**	**3,206**	**2,687**	**2,687**
Retained value	**5.85**	**3.62**	**4.11**	**4,689**	**2,889**	**2,180**
Dividends reconciliation						
Gross dividend	4.00	3.35	5.07	3,206	2,687	2,687
Interest receivable on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**3.35**	**5.07**	**3,206**	**2,687**	**2,687**

2A – Segmental income statement

for the 12 months ended 31 March 2019

	Wholesale			Retail	
	Water resources £000	Water network+ £000	**Wholesale total £000**	Household £000	**Total £000**
Revenue – price control	–	56,305	**56,305**	5,661	**61,966**
Revenue – non price control	–	918	**918**	8	**926**
Operating expenditure	(4,045)	(26,338)	**(30,383)**	(7,866)	**(38,249)**
Depreciation – tangible fixed assets	(746)	(8,369)	**(9,115)**	(46)	**(9,161)**
Amortisation – intangible fixed assets	–	(198)	**(198)**	(162)	**(360)**
Other operating income	31	1,599	**1,630**	–	**1,630**
Operating profit before recharges			**19,157**	(2,405)	**16,752**
Recharges from other segments	–	–	**–**	(269)	**(269)**
Recharges to other segments	21	248	**269**	–	**269**
Operating profit			**19,426**	(2,674)	**16,752**

The basis of cost allocations used in this segmental income statement is described in Note 1A on page 105. 'Water network+' activities include raw water transport and storage, water treatment and treated water distribution in accordance with definitions in the Regulatory Accounting Guidelines (RAGs).

(Operating profit for wholesale activities was £1.010 million higher than was assumed in the PR14 Final Determination primarily due to lower operating costs. Operating costs were £2.375 million lower than the PR14 Final Determination principally due to all infrastructure renewals activity being treated as capital expenditure and depreciated over an estimated useful economic life of 100 years. Lower inflation than was assumed in the PR14 Final Determination also reduced both revenue and operating expenditure.)

Household retail activities made an operating loss of £2,674 million due to higher costs, as noted on page 115.

2B – Wholesale totex analysis

for the 12 months ended 31 March 2019

	Water resources £000	Water network+ £000	Total £000
Operating expenditure			
Power	1,581	4,036	**5,617**
Income treated as negative expenditure	–	(68)	**(68)**
Abstraction charges	861	–	**861**
Bulk supply	–	–	**–**
Other operating expenditure – renewals expensed in year (infrastructure)	–	–	**–**
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–	**–**
Other operating expenditure – excluding renewals	1,382	18,469	**19,851**
Local authority and cumulo rates	221	2,984	**3,205**
Total operating expenditure excluding third party services	4,045	25,421	**29,466**
Third party services	–	917	**917**
Total operating expenditure	4,045	26,338	**30,383**
Capital expenditure			
Maintaining the long-term capability of the assets – infrastructure	–	5,795	**5,795**
Maintaining the long-term capability of the assets – non-infrastructure	180	6,890	**7,070**
Other capital expenditure – infrastructure	–	6,930	**6,930**
Other capital expenditure – non-infrastructure	(3)	2,417	**2,414**
Infrastructure network reinforcement	–	2,683	**2,683**
Total gross capital expenditure excluding third party services	177	24,715	**24,892**
Third party services	–	–	**–**
Total gross capital expenditure	177	24,715	**24,892**
Grants and contributions	–	1,696	**1,696**
Totex	4,222	49,357	**53,579**
Cash expenditure			
Pension deficit recovery payments	–	–	**–**
Other cash items	–	–	**–**
Totex including cash items	4,222	49,357	**53,579**

2C – Operating cost analysis: retail

for the 12 months ended 31 March 2019

	Total £000
Operating expenditure	
Customer services	3,033
Debt management	874
Doubtful debts	529
Meter reading	285
Services to developers	–
Other operating expenditure	3,145
Total operating expenditure excluding third party services	7,866
Third party services operating expenditure	–
Total operating expenditure	7,866
Depreciation – tangible fixed assets	46
Amortisation – intangible fixed assets	162
Total operating costs	8,074
Debt written-off	282

Operating costs for household retail activities were £2.474 million higher than the PR14 Final Determination due to the absence of an inflation allowance in the retail costs allowed in the PR14 Final Determination and higher resourcing deployed to address disappointing performance against the Service Incentive Mechanism.

On 1 April 2017 SES Water exited the non-household retail market. We no longer incur costs related to non-household retail and we have therefore excluded it from the table above.

2D – Historic cost analysis of tangible fixed assets: wholesale and retail

for the 12 months ended 31 March 2019

	Wholesale		Retail	
	Water resources £000	Water network+ £000	Household £000	**Total £000**
Cost				
At 1 April 2018	26,312	464,807	189	**491,308**
Disposals	(14)	(138)	–	**(152)**
Additions	177	24,651	43	**24,871**
Adjustments	–	–	–	**–**
Assets adopted at nil cost	–	–	–	**–**
At 31 March 2019	26,475	489,320	232	**516,027**
Depreciation				
At 1 April 2018	(8,021)	(186,443)	(153)	**(194,617)**
Disposals	13	111	–	**124**
Adjustments	–	–	–	**–**
Charge for the year	(746)	(8,369)	(46)	**(9,161)**
At 31 March 2019	(8,754)	(194,701)	(199)	**(203,654)**
Net book amount at 31 March 2019	17,721	294,619	33	**312,373**
Net book amount at 1 April 2018	18,291	278,364	36	**296,691**
Depreciation charge for the year				
Principal services	(746)	(8,369)	(46)	**(9,161)**
Third party services	–	–	–	**–**
Total	**(746)**	**(8,369)**	**(46)**	**(9,161)**

2E – Analysis of grants and contributions and land sales: wholesale

for the 12 months ended 31 March 2019

	Fully recognised in income statement £000	Capitalised and amortised against depreciation £000	Fully netted off capex £000	**Total £000**
Grants and contributions				
Connection charges	912	–	–	**912**
Infrastructure charge receipts	545	–	–	**545**
Requisitioned mains	239	–	–	**239**
Other contributions (price control)	–	–	–	**–**
Diversions	–	–	–	**–**
Other contributions (non-price control)	–	–	–	**–**
Total	1,696	–	–	**1,696**
Value of adopted assets	–	186	–	**186**
Movements in capitalised grants and contributions				
Brought forward	–	–	–	**–**
Capitalised in year	–	–	–	**–**
Amortisation (in income statement)	–	–	–	**–**
Carried forward	–	–	–	**–**
Land sales				
Proceeds from disposals of protected land	357	–	–	**357**

2F – Household: revenues by customer type

for the 12 months ended 31 March 2019

	Wholesale charges revenue £000	Retail revenue £000	**Total revenue £000**	Number of customers 000s	**Average household retail revenue per customer £**
Unmeasured water	23,249	1,778	**25,027**	117,109	**15**
Measured water	23,374	3,883	**27,257**	151,341	**26**
Total	46,623	5,661	**52,284**	268,450	**21**

The household retail revenue allowance for 12 months ended 31 March 2019 was £6.091 million. This is £0.059 million less than the PR14 Final Determination allowed revenue due to our assumed number of customers being 2,200 fewer than our Business Plan.

We recovered £5.661 million and therefore under recovered our allowed revenue by £0.430 million (7.1%). This was due to a greater number of customers receiving the social tariff discount than budgeted for in our Business Plan. The household retail price control makes provision for a reconciliation to be undertaken at the end of the five-year period, which will take the aggregate over-/under-recovery over the whole period and adjust allowed revenue for the next price control period beginning 1 April 2020.

2G – Non-household: revenues by tariff type

for the 12 months ended 31 March 2019

On 1 April 2017 SES Water exited the non-household retail market. Non-households can now choose their retailer in the competitive market. Retailers charge non-household customers and pay us wholesale charges. For the 12 months ended 31 March 2019 wholesale revenue from non-household customers totalled £9.682 million primarily with SES Business Water.

2I – Revenue analysis

for the 12 months ended 31 March 2019

	Household £000	Non-household £000	Total £000
Wholesale charge			
Unmeasured	23,249	228	**23,477**
Measured	23,374	9,454	**32,828**
Third party revenue	–	–	**–**
Total	46,623	9,682	**56,305**
Retail revenue			
Unmeasured	1,778	–	**1,778**
Measured	3,883	–	**3,883**
Third party revenue	–	–	**–**
Total	5,661	–	**5,661**
Third party revenue – non-price control			
Bulk supplies			**36**
Other third party revenue			**211**
Principal services – non-price control			
Other appointed revenue			**679**
Total appointed revenue			**62,892**

	Total £000
Wholesale revenue governed by price control	**56,305**
Grants & contributions	**1,696**
Total revenue governed by wholesale price control	**58,001**
Amount assumed in wholesale determination	**58,629**
Adjustment for WRFIM	**(132)**
Total assumed revenue	**58,497**
Difference between actual revenue and assumed	**(496)**

There is no adjustment to wholesale revenue for in-period outcome delivery incentives as none apply to the Company.

Wholesale revenue for the year was £0.496 million (0.8%) lower than the control set under the PR14 Final Determination of the wholesale price control. (The number of measured customers was lower than forecast when the PR14 Final Determination was set. The reduction in revenue expected from measured customers was offset by higher than forecast revenue from developers paying grants and contributions. The remaining difference between total revenue governed by the wholesale price control and the amount assumed in the wholesale determination is due to actual consumption and customer numbers varying from the forecasts used when charges for the year were set.)

Ofwat's wholesale revenue forecasting incentive mechanism (WRFIM) requires that any over-/under-recovery of revenue in one year results in a reduction/increase in charges in a subsequent year. The small under-recovery in 2018/19 will, all else held equal, lead to a small increase in charges from April 2020.

2J – Infrastructure network reinforcement costs

for the 12 months ended 31 March 2019

	Network reinforcement capex £000	On site/ site specific capex £000
Distribution and trunk mains	2,683	–
Pumping and storage facilities	–	–
Other	–	–
Total	**2,683**	**–**

Contributions from developers for these reinforcement costs arise as requisitions (£0.239 million in the year) or as infrastructure charges (£0.545 million in the year).

Network reinforcement costs are recognised as incurred. Infrastructure charges are recognised as properties are connected therefore costs may have been incurred in years prior to the income from charges being recognised.

2K – Infrastructure charges reconciliation

	£000
Infrastructure charges	545
Discounts applied to infrastructure charges	–
Gross infrastructure charges	**545**
Comparison of revenue and costs	
Variance brought forward	–
Revenue	545
Costs	(2,683)
Variance carried forward	**(2,138)**

Information on our performance is included in our Performance Report (pages 22 to 23) and in the operating and financial review (pages 24 to 27). We have met our target level of performance for the year on 14 out of 20 commitments. One of the remaining six targets was within the agreed 'deadband' for natural variation beyond management control. (One other related to two minor pollution incidents as reported by the Environmental Agency.) The remaining two shortfalls were for the Service Incentive Mechanism and the number of complaints, for which remedial actions are in place. We remain committed to at least meet or exceed our commitments by the end of the five year period. Performance on some commitments is linked to a financial outperformance payment or penalty which will be reflected in prices from 2020. The financial impact shown in this table has been calculated based on the incentive rates agreed with Ofwat in the Business Planning process. Our performance on the Service Incentive Mechanism is also linked to a financial reward or penalty but the magnitude is unknown because it will be based on our performance relative to other companies in the sector.

Performance commitment	Units	2017-18 performance level – actual
A1: Security of supply index (SoSI) dry year average	score	100
A2: Security of supply index (SoSI) critical period	score	100
A3: Supply interruptions >3 hours	hours/property/year	0.05
A4: Condition and reliability of the mains network – number of burst pipes a year	nr	214
A5: Drinking Water Inspectorate's (DWI) index of water quality	%	99.98
A6: Taste, odour and discolouration (number of contacts received)	nr	365
A7: Water softening programme	text	Delivered
B1: Number of customers that are in water poverty and receiving assistance	nr	8,150
B2: Effectiveness of bad debt recovery (bad debt expressed as a percentage of turnover)	%	0.64
B3: Customer perception of value for money	%	9
C1: The number of times on average the Company has to impose restrictions on the use of water	nr	0
C2: Percentage of properties that are connected to more than one treatment works (resilience measure)	%	36
D1: Customer satisfaction (level of satisfaction in response to the tracker survey (overall quality score))	%	92
D2: Service Incentive Mechanism (SIM)	score	78.7
D3: Total number of complaints per 1,000 properties	nr	9.8
E1: Level of leakage measured in megalitres per day (including customer supply pipe leakage)	nr	24.2
E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d)	nr	158.8
E3: The number of children and adults engaged in environmental education activities	nr	9,551
E4: Greenhouse gas emissions per million litres of water supplied	nr	376
E5: Number of pollution incidents per 100 kilometres (category 3 or worse, as reported by the Environment Agency)	nr	0.6

Definitions

'Earned' means a financial reward or penalty arising from performance during the year which will only crystallise post-2020. It is not reflected in reported financial performance for the year.

'NA' means no financial reward or penalty is due or, in the case of SIM, is not capable of being estimated at this stage.

2018-19 performance level – actual	2018-19 target met?	Performance payment or penalty payable at the end of AMP6	Performance payment or penalty payable at the end of AMP6 £m absolute value	Total AMP6 payment or penalty 31 March 2020 forecast	Total AMP6 payment or penalty 31 March 2020 forecast £m absolute value
100	Yes	Target met		Target met	0
100	Yes	NA	NA	NA	NA
0.27	No	Underperformance penalty	(0.137)	Outperformance payment	0.306
255	Yes	Target met		Target met	0
99.97	No	Within penalty deadband		Within penalty deadband	0
388	No	Underperformance penalty	(0.013)	Within penalty deadband	0
Delivered	Yes	Target met		Target met	0
10,401	Yes	NA	NA	NA	NA
1.01	No	NA	NA	NA	NA
8	Yes	NA	NA	NA	NA
0	Yes	NA	NA	NA	NA
56	Yes	Target met		Target met	0
91.5	Yes	NA	NA	NA	NA
80.5	No	NA	NA	NA	NA
8.0	No	NA	NA	NA	NA
24.1	Yes	Target met		Target met	0
162.6	Yes	Target met		Target met	0
11,798	Yes	NA	NA	NA	NA
91	Yes	NA	NA	NA	NA
0.0	Yes	NA	NA	NA	NA

3C – Abstraction Incentive Mechanism

The Abstraction Incentive Mechanism (AIM) was established and is monitored by Ofwat. The objective of the AIM is to provide an incentive to reduce abstraction from sources that are proven, or there is some evidence that they are having, an impact on the environment at certain times.

We are required to report to Ofwat on the sites and conditions when we have applied the AIM. We do not think any of our sites are currently suitable for the AIM because:

- There is limited ability to choose between sources in our area, either due to limited connectivity, or in areas where there is connectivity, the sites have similar impacts on the environment
- Where choice is available the additional cost of using alternative sources makes it economically unviable based on our Business Plan.

We have three main areas where water is sourced:

- Unconfined chalk which impacts the chalk streams in the north of our area
- Leatherhead groundwater sources with connectivity to the River Mole
- Bough Beech reservoir which takes water from the River Eden.

There is connectivity between the unconfined chalk sources in the north of our supply area, but there is limited difference in the environmental impact of choosing one source over another as they all impact the chalk streams in the area, primarily the River Wandle. Leatherhead and Bough Beech can be used to supply water to the northern area but due to the cost of doing so this is used only in times of emergency or where groundwater in the chalk is stressed.

3D – Service Incentive Mechanism (SIM)

	Score
Qualitative performance	
1st survey score	4.16
2nd survey score	4.07
3rd survey score	4.30
4th survey score	4.25
Qualitative SIM score (out of 75)	59.91
Quantitative performance	
Total contact score	88.12
Quantitative SIM score (out of 25)	20.59
Total annual SIM score (out of 100)	**80.50**

The total SIM score is made up of two components. The results of independent quarterly surveys of customers' views when they have been in contact with the Company are converted into a score out of 75 for the year. The number of unwanted contacts is converted into a score out of 25 for the year. The total annual SIM score is the sum of the two components.

4A – Non-financial information

for the 12 months ended 31 March 2019

	Current year		
	Unmeasured	Measured	All
Number of void households	3,538	5,629	9,167
Per capita consumption (excluding supply pipe leakage) (l/h/d)	188.48	139.53	162.62
Wholesale volume (Ml/d)			
Bulk supply export			0.100
Bulk supply import			–
Distribution input			167.990

4B – Wholesale totex analysis: Comparison to allowed totex

for the 12 months ended 31 March 2019

	Current year £000	Cumulative 2015-19 £000
Actual totex	53,579	195,866
Items excluded from the menu		
Third party costs	917	4,909
Pension deficit recovery payments	–	1,141
Other 'Rule book' adjustments	–	–
Total items excluded from the menu	917	6,050
Adjusted actual totex		
Adjusted actual totex	52,662	189,816
Adjusted actual totex base year prices	45,481	171,281
Allowed totex		
Allowed totex based on final menu choice base year prices	44,029	178,163

Actual totex (at 2012/13 prices, base year prices) was £1.452 million (3.3%) higher than the PR14 Final Determination allowed totex for the year and £6.882 million (3.9%) lower than the PR14 Final Determination allowed totex for the first four years of the current regulatory period. This was primarily attributable to the continuing impact of re-phasing of capital investment to later in the five year period to enable projects to be scoped and designed using the latest available information to achieve the performance commitments made to customers.

4C – Impact of AMP performance to date on RCV

for the 12 months ended 31 March 2019

	£000
Cumulative totex over/(underspend) so far in the price control period	(6,882)
Customer share of cumulative totex over/(underspend)	(842)
RCV element of cumulative totex over/(underspend)	(3,100)
Adjustment for ODI payments or penalties	–
RCV determined at FD for 31 March 2019	260,090
Projected 'shadow' RCV	**256,990**

The 'shadow' RCV is calculated as the RCV determined by Ofwat in the PR14 Final Determination less an adjustment for the current cumulative underspend of totex.

The 'shadow' RCV above has been calculated in accordance with Ofwat guidance and assumes the lower level of wholesale totex compared to the PR14 Final Determination persists to 2020. A re-phrasing of capital investment is expected to offset this reduction to maintain the RCV at the end of the price control in 2020.

4D – Wholesale totex analysis

for the 12 months ended 31 March 2019

	Water resources	
	Abstraction licences £000	Raw water abstraction £000
Operating expenditure		
Power	–	1,581
Income treated as negative expenditure	–	–
Abstraction charges	861	–
Bulk supply	–	–
Other operating expenditure – renewals expensed in year (infrastructure)	–	–
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–
Other operating expenditure – excluding renewals	–	1,382
Local authority and cumulo rates	–	221
Total operating expenditure excluding third party services	861	3,184
Third party services	–	–
Total operating expenditure	861	3,184
Capital expenditure		
Maintaining the long-term capability of the assets – infrastructure	–	–
Maintaining the long-term capability of the assets – non-infrastructure	–	180
Other capital expenditure – infrastructure	–	–
Other capital expenditure – non-infrastructure	–	(3)
Infrastructure network reinforcement	–	–
Total gross capital expenditure excluding third party services	–	177
Third party services	–	–
Total gross capital expenditure	–	177
Grants and contributions	–	–
Totex	861	3,361
Cash expenditure		
Pension deficit recovery payments	–	–
Other cash items	–	–
Totex including cash items	861	3,361
Unit cost information – operating expenditure (Ml)		
Licensed volume available	105,539	65,607
Volume abstracted		
Volume transported		
Average volume stored		
Distribution input from water treatment		
Distribution input treated water		
Unit cost (£/Ml)	8.16	48.53
Population (000s)		
Unit cost (£/pop)	1.21	4.47

Raw water distribution				
Raw water transport £000	Raw water storage £000	Water treatment £000	Treated water distribution £000	**Total £000**
385	–	1,274	2,377	**5,617**
–	–	(68)	–	**(68)**
–	–	–	–	**861**
–	–	–	–	**–**
–	–	–	–	**–**
–	–	–	–	**–**
232	–	7,954	10,283	**19,851**
5	–	963	2,016	**3,205**
622	–	10,123	14,676	**29,466**
–	–	–	917	**917**
622	–	10,123	15,593	**30,383**
13	–	–	5,782	**5,795**
–	–	6,292	598	**7,070**
–	–	–	6,930	**6,930**
–	–	–	2,417	**2,414**
–	–	–	2,683	**2,683**
13	–	6,292	18,410	**24,892**
–	–	–	–	**–**
13	–	6,292	18,410	**24,892**
–	–	–	1,696	**1,696**
635	–	16,415	32,307	**53,579**
–	–	–	–	**–**
–	–	–	–	**–**
635	–	16,415	32,307	**53,579**
62,005				
	–			
		61,316		
			61,316	
10.03	–	165.10	254.31	
–	–	–	–	**712,031**
0.87	–	14.22	21.90	

4F – Cost analysis: household retail

for the 12 months ended 31 March 2019

	Household unmeasured £000	Household measured £000	**Total £000**
Operating expenditure			
Customer services	1,028	2,005	**3,033**
Debt management	381	493	**874**
Doubtful debts	361	168	**529**
Meter reading	–	285	**285**
Other operating expenditure	1,372	1,773	**3,145**
Total operating expenditure excluding third party services	3,142	4,724	**7,866**
Third party services operating expenditure	–	–	**–**
Total operating expenditure	3,142	4,724	**7,866**
Depreciation – tangible fixed assets (on assets existing at 31 March 2015)	6	7	**13**
Depreciation – tangible fixed assets (on assets acquired since 1 April 2015)	14	19	**33**
Amortisation – intangible fixed assets (on assets existing at 31 March 2015)	13	17	**30**
Amortisation – intangible fixed assets (on assets acquired since 1 April 2015)	58	74	**132**
Total operating costs	3,233	4,841	**8,074**
Capital expenditure	189	244	**433**
Other operating expenditure – breakdown			
Demand-side water efficiency – gross expenditure			**120**
Expenditure funded by wholesale			**–**
Demand-side water efficiency – net retail expenditure			**120**
Customer-side leak repairs – gross expenditure			**91**
Expenditure funded by wholesale			**–**
Customer-side leak repairs – net retail expenditure			**91**

4G –Wholesale current cost financial performance

for the 12 months ended 31 March 2019

	£000
Revenue	57,223
Operating expenditure	(30,383)
Capital maintenance charges	(18,029)
Other operating income	1,630
Current cost operating profit	**10,441**
Other income	2,210
Interest income	106
Interest expense	(11,021)
Other interest expense	-
Current cost profit before tax and fair value movements	**1,736**
Fair value gains/(losses) on financial instruments	-
Current cost profit before tax	**1,736**

Current cost operating profit and profit before tax have both been calculated in accordance with Ofwat guidelines based on historic costs (as reflected in the Company's statutory and regulatory accounts) with the sole exception of capital maintenance charges.

Capital maintenance charges have been based on:

- Current cost depreciation on above ground assets under the former UKGAAP (as reflected in prior years' regulatory accounts), rolled forward for additions, disposals and inflation during the year. The underlying asset values used to generate this current cost depreciation charge are those from the Modern Equivalent Asset Valuation exercise undertaken for the 2009 Price Review (PR09)
- The infrastructure renewals charge for 2014/15 inflated to 2017/18 prices, as a proxy for depreciation of underground assets.

This basis of calculation differs fundamentally from that used to generate the depreciation charge for all assets under FRS 101, as reflected in the Company's statutory and regulatory accounts.

There are no working capital adjustments, which have featured in previous Current Cost Accounting (CCA) Regulatory Accounts, included in this Wholesale Current Cost Financial Performance table.

4H – Financial metrics

for the 12 months ended 31 March 2019

	Units	Current year	AMP to date
Net debt	£m	158.422	
Regulatory equity	£m	101.668	
Regulatory gearing	%	60.91	
Post tax return on regulatory equity	%	8.82	
RoRE (return on regulatory equity)	%	3.44	5.21
Dividend yield	%	3.03	
Retail profit margin – Household	%	(4.62)	
Credit rating	n/a	BBB+	
Return on RCV	%	6.99	
Dividend cover	times	1.98	
Funds from operations (FFO)	£m	23.122	
Interest cover (cash)	times	4.95	
Adjusted interest cover (cash)	times	2.19	
FFO/Debt	dec	0.15	
Effective tax rate	%	12.91	
Free cash flow (RCF)	£m	20.038	
RCF/capex	dec	0.79	
Revenue (actual)	£m	61.966	
EBITDA (actual)	£m	23.717	
Movements in RORE			
Base return	%	5.80	5.80
Totex out/(under) performance	%	0.00	0.00
Retail cost out/(under) performance	%	(1.19)	(0.97)
ODI out/(under) performance	%	(0.15)	0.26
Financing out/(under) performance	%	(0.60)	(0.58)
Other factors	%	(0.42)	0.70
Return on regulatory equity	%	**3.44**	**5.21**
Proportion of borrowings which are fixed rate	%		0.06
Proportion of borrowings which are floating rate	%		7.78
Proportion of borrowings which are index linked	%		92.16
Proportion of borrowings due within 1 year or less	%		0.00
Proportion of borrowings due in more than 1 year but no more than 2 years	%		7.78
Proportion of borrowings due in more than 2 years but no more than 5 years	%		0.00
Proportion of borrowings due in more than 5 years but no more than 20 years	%		92.16
Proportion of borrowings due in more than 20 years	%		0.06

As noted in the commentary accompanying the revenue tables (see pages 118 and 119), actual revenue in 2018/19 was:

- £0.496 million (0.8%) lower than the amount assumed in the wholesale price control; and
- £0.430 million (7.1%) lower than the allowed revenue in the household retail price control.

In relation to wholesale revenue recovery there was higher than anticipated income received from new connection related services and lower than anticipated income from water charges.

As noted in the commentary accompanying the wholesale totex analysis on page 126, actual totex for the year was £1.452 million higher (at 2012/13 prices) than allowed in the wholesale price control, principally due to re-phasing of capital expenditure into later years of the five year period. As noted in the commentary accompanying the operating cost analysis for retail activities on page 115, retail operating costs for the year were £2.474 million higher than assumed in the retail price controls. Overall expenditure was therefore £3.926 million higher than assumed in the PR14 Final Determination.

This estimated actual return on regulated equity needs to be interpreted with care for a number of reasons, including:

- The net ODI reward for the year takes no account of the impact of performance against the Service Incentive Mechanism (SIM), because the magnitude is not capable of estimation without full visibility of other companies' performance (which will determine the impact for the Company)
- The difference on interest costs is based entirely on a notional capital structure and bears little relationship to the Company's actual capital structure
- It excludes the impact of other factors affecting actual returns, including one-off items (such as a significant land sale in 2015/16 and the sale of the non-household customer list) and enduring items, such as the accounting treatment of capital maintenance charges for the Company's underground pipe network.

The overall impact of no allowances for inflation on retail cost allowances and under-funding of debt costs at the last Price Review is, however, clear.

Post tax returns on regulatory equity have, in contrast to the RoRE estimate, been affected by both accounting policies and the impact of low inflation (on the indexation of the Company's principal long-term debt instrument). The accounting treatment of infrastructure renewals expenditure under FRS 101 continues to have a substantial effect upon accounting based measures. All planned infrastructure asset renewal expenditure has been capitalised (in accordance with FRS 101) and depreciated over an estimated useful economic life of 100 years. Any residual book value of pipes being replaced has been written-off on commissioning of new assets.

Dividend payments have been kept broadly in line with the estimated return on regulatory equity reflected in the PR14 Final Determination and incorporated into the Company's updated dividend policy statement (which can be found on page 35).

1 Transactions with associated companies

	Description	Value £000	Terms of Supply	Annual turnover of associated company £000
Allmat (East Surrey) Ltd	Administration	2	Other market testing	3,384
Advanced Minerals Ltd	Disposal of waste	15	Other market testing	3,274
Sutton and East Surrey Water Services Ltd	Leak repair	188	Competitive tendering	45,449
Sutton and East Surrey Water Services Ltd	Wholesale water charges	8,409	Market code	45,449

In the above table the annual turnover for Sutton and East Surrey Water Services Limited is the latest draft management values awaiting final audit.

In addition to the above, the Company charged Allmat (East Surrey) Ltd £46,500 (2018: £46,500) for the rental premises and Sutton and East Surrey Water Services Limited £207,608 for administration and late payment fees.

In addition the Company has made payments for a membership subscription of £48,514 to Water UK and pension management fees of £20,000 to The Water Companies (Pension Fund) trustee.

A dividend of £3,684,000 (2018: £5,600,000) was paid through SESW Holding Company Ltd to East Surrey Holdings Ltd.

A preference dividend of £398,540 (2018: £965,998) was paid through SESW Holding Company Ltd to East Surrey Holdings Ltd.

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in accordance with Condition F of the Company's Instrument of Appointment and Regulatory Accounting Guidelines 5.07.

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Glossary

Aims – the six promises that we aim to deliver for our customers as stated in our five-year Business Plan.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

Leaks – water lost from fittings to mains like stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the next price control review by Ofwat. This will conclude in December 2019 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

SIM – 'Service Incentive Mechanism' is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water plc.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

SES Water

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SES Water is a trading name of
Sutton and East Surrey Water Plc

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