Delivering more than water

Annual Report and Financial Statements 2020

ses WATER

Who we are

We are a local water supplier providing an essential public service while playing an active role in the communities we are privileged to serve.

Strategic report

Governance

Financial statements

Regulatory reporting

Key stories of the year

Hear from our new CEO

Read more on page 5

Our performance this year

Read more on page 16

Working in the public interest

Read more on page 36

Highlights

Operational highlights

Leakage target met for 21st successive year

23.9ML/day

(2019: 24.1ML/DAY)

TARGET LIMIT: 24.0

Customers on our Water Support Scheme

14,311

(2019: 10,401)

TARGET: 5,000

Customer contacts about their water quality

329

(2019: 388)

TARGET LIMIT: 350

Burst mains

172

(2019: 255)

TARGET LIMIT: 290

Financial highlights

Bills to fall by

15.6%

IN NEXT FIVE YEARS

Capital investment

£35.6m

2019: £25.3M

Revenue

£69.8m

2019: £68.3M

Dividend paid

£6.7m

2019: £3.7M

Profit before tax

£10.7m

2019: £9.4M

Strategic highlights

- We have met the majority of our annual performance commitments, finishing the 2015 to 2020 price review period in a strong position
- We accepted Ofwat's Final Determination on our Business Plan for 2020 to 2025, agreeing our performance commitments and customer bills for the five-year period
- Our ongoing targeted approach to asset investment means our customers benefit from a more robust service
- Our customer transformation programme has continued with our brand new Company website going live and significant investment in a new billing and customer relationship management system launching later this year
- We have achieved Investors in People Silver accreditation which reflects the many great things we do to lead, manage, develop and support our employees
- Our top priority in the response to COVID-19 has always been to put the health and wellbeing of our employees and customers first, while striving to do the right thing and continue to supply high-quality water all day, every day
- Our new charitable fund, launched in partnership with the Community Foundation for Surrey, has seen us donate more than £30,000 to support many good causes in the areas we serve
- Our successful education programme has continued, engaging with more than 12,000 people across our supply area
- Our unwavering focus on vulnerable customers means we are now helping more people in more ways than ever before

At a glance

Understanding SES Water

Our vision

To be an outstanding water company that delivers service excellence.

Our purpose

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

Read more on page 116

What we do

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

Our values

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

Service

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

Commitment

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

Innovation

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

Integrity

We are accountable, ethical and trustworthy.

Collaboration

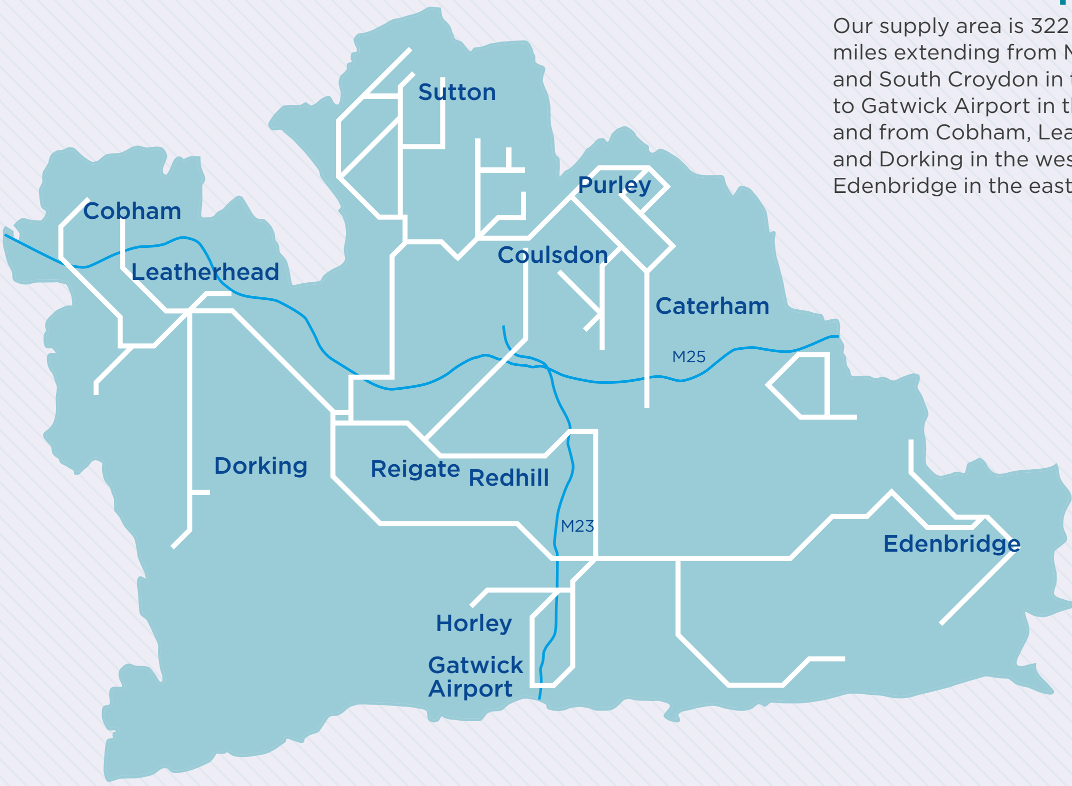
We are respectful, welcome diversity and support each other to achieve our goals.

Compassion

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

Our business in numbers

Number of employees	Water coming from underground sources	Water from our reservoir
310	85%	15%



Where we operate

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

2020 to 2025 Business Plan

Our plan for the next five years has been developed in partnership with our customers and sets out the investment we will make to improve our service and deliver more of what matters to them. It includes five pledges for us to deliver:

Read more on page 34

High-quality water all day, every day

Fair prices and help when you need it

A service that is fit now and for the future

Excellent service, whenever and however you need it

Support a thriving environment we can all rely upon

Litres used per person per day	Water restrictions	Water treatment works	Litres of water supplied daily
153	0	8	160m

Chairman's foreword

Jeremy Pelczer
Chairman

We have achieved industry leading performance in areas we know are critical to our customers.

The purpose of our Annual Report is usually to look back on our performance over the previous year. However, I am going to start with where we are today – dealing with the COVID-19 pandemic that continues to have such a significant effect on all of us. We have met the challenges presented to date with an unwavering focus on our customers and I am proud of our dedicated employees who have worked tirelessly to provide a high level of service – my sincere thanks to all of them.

I hope that our actions during this difficult period will further enhance the trust of our customers and the communities we serve. Our core values have clearly been at the fore and our purpose, to go beyond providing an essential public service and to play an active role in society, has never been more pertinent. The crisis has brought with it many challenges for us, beyond the on-the-ground operational response, so our priority as a Board will be to navigate the Company through these difficult times and ensure that we meet all our stakeholder expectations as we all start to recover from its impact.

I am very pleased to report that over the last year we've achieved industry leading performance in areas we know are critical to our customers. This includes reducing supply interruptions and mains bursts, and meeting our leakage target for the 21st year running. We've also continued to make good progress in reducing our emissions and contributing to the industry's commitment to achieve net zero carbon emissions by 2030. However, we know that we have more to do in some areas, notably to improve customer and developer satisfaction. The introduction of the new industry-wide measures of customer and developer satisfaction will rightly set the bar even higher but the Board is determined that we will reach it.

Another key focus as a Board over the last year has been to continue to implement an enhanced governance agenda and increase the transparency of our decision-making. Minutes of all our Board meetings are published on our website and we have agreed new dividend and executive remuneration policies, with a strengthened link to customer service and performance. We have improved the visibility around our dividend and remuneration decisions and you can read in this report about how we agreed the level of dividends and how our executives were remunerated.

I am delighted that Ian Cain joined us in February 2020 as our new Chief Executive Officer, after a rigorous and extensive search. Ian has very broad experience within the utility sector with a particular focus on delivering excellent customer service which continues to be our priority. The Board and I have already valued his fresh approach and focus on customers and employees – you can hear more from him on the following pages.

Ian's appointment follows the retirement of his predecessor, Anthony Ferrar, in February 2020. I would like to personally thank Anthony for his considerable contribution and leadership of the Company over the last 11 years.

Ian's arrival came shortly after Ofwat's Final Determination on our Business Plan for 2020 to 2025. It followed a long and complex period of engagement with our regulator, but I am confident that we have struck a reasonable balance between keeping bills affordable and investing to increase the long-term resilience of our service. You can read more later about the ambitious targets we have set and we'll report on our progress in our future annual reports.

As I look ahead to the coming year, as our communities and the economy recover and rebuild, we will continue to provide all our customers with a high-quality and reliable service, while striving to meet our new performance targets, although the delivery of some may be challenging in the short-term because of COVID-19. It is a time when strong leadership, effective decision-making, transparency and collaboration will be critical, and as ever we are well placed to succeed.

Jeremy Pelczer
Chairman

14 July 2020

Chief Executive Officer's statement

Ian Cain
Chief Executive Officer

Q&A with Ian Cain

We hear from Ian about his first few months in the new role and his plans to deliver the Company's new Business Plan over the next five years.

Ian joined the Company as Chief Executive Officer in February 2020. Having spent 27 years at British Gas and Centrica, Ian first joined the water industry in 2013 with Thames Water, leading its journey to improve the customer experience across all areas of the business from treatment and supply through to billing. In doing so, Ian led the customer service activities for the group, while also working as part of the board that oversaw activities and investments to deliver improved sustainability and resilience in the infrastructure.

Ian has also advised a number of utility and service organisations with their transformation agendas as an independent advisor. His last role presented him with the challenge of turning around the financial, operational and customer service performance at new-start energy supplier iSupplyEnergy.

Q – You have held several senior customer services and transformation positions over your career. How will your experience help you deliver on SES Water's vision?

I have always maintained the core belief that you have to earn the right to serve customers. Maintaining their loyalty through delivering excellence in all areas of the business, at great value, is key. I firmly believe that as a business we have a fundamental role to play in the experience we offer our customers and communities and it is vital we listen to and understand their voice.

With this in mind, I am pleased to have joined the company at a time when we are launching our 'Voice of the Customer' programme. The focus of the programme is to get a much deeper understanding of what our customers feel about us, the experience they have with us (from source to tap) and what they may want from us in the future. It will help us turn lots of our current customer and performance data into usable insight to support decisions, business improvements and customer engagement right across the business.

For me it's part of a growing reflection that the new ways of working we are adopting right now could support the evolution of our Company to become one of the most admired and agile customer-focused water companies in the world. I already know that we can achieve that.

> **I firmly believe that as a business we have a fundamental role to play in the experience we offer our customers and communities.**

Chief Executive Officer's statement Continued

"Since starting in my role I have been impressed and inspired by the family feel and just how much pride people take in working here, recognising the importance of what we do.

Q – How has the business responded to the COVID-19 outbreak?

During what has been an incredibly difficult time for everyone, I have been impressed and proud of the way our people have stepped up and responded to the situation. I have also been struck by the unwavering positivity and professionalism displayed throughout.

I had certainly never envisioned having to face a challenge of this size or scale in my first month in the role. However, the determination of everyone to pitch in and rally round one another made me feel a real sense of pride to be working with such a committed team.

Throughout the crisis we have never lost sight of our number one priority, which will always be the health, safety and wellbeing of our workforce and our customers. With this in mind our main focus was to take swift, pre-emptive measures to protect our people and their working environments, while continuing to treat and deliver a supply of high-quality water to our customers.

From ceasing all non-essential network activity and only dealing with customer emergencies, to scaling back activity at our treatment works to purely focus on water treatment and distribution, we ensured the business was as prepared and agile as possible while maintaining much-needed resilience.

Q – What are the biggest challenges and opportunities facing SES Water?

As we continue to work through the huge impact of the COVID-19 pandemic, it is clear that a number of the biggest challenges we face as a business are shared by companies across the globe and are not just specific to the water industry. For example, a growing population requires housing, schools, transport infrastructure, energy and of course a reliable and safe source of water. By 2080 we expect the population in our supply area to increase by half – that's a million people all needing water for their vital everyday needs.

We are all concerned about climate change and we must acknowledge that and continue to manage our finite water resources efficiently, whilst also playing our part in the water industry achieving net zero carbon emissions by 2030.

COVID-19 has served to re-emphasise the vital role that water companies play in the communities we serve – we don't just provide water. From supporting our vulnerable customers with a payment holiday scheme to reaching out to the local community, we are contributing to the sector's ambition to represent the best in responsible business practice. That means going beyond regulatory compliance to demonstrate long-term stewardship of the environment and delivering wider social benefits.

We need to work together with Ofwat and others across the industry to meet our collective aims. I believe we have been presented with an opportunity to deliver some ambitious plans and in some areas delivering those plans will need us to collaborate more effectively across the sector and accelerate innovation. I have no doubt we will rise to the challenges ahead.

Q – How is the 2020 to 2025 Business Plan designed to respond to those challenges?

Our plan is set in the context of the longer term and directly addresses some of the key challenges we face. Our location in a high-growth, water stressed area means we will take bold action to reduce leakage and usage, as expected by our customers.

We are building on solid foundations. Our performance in key areas such as supply interruptions, mains bursts, water quality customer contacts and leakage has set the bar for the industry and this plan will go further still.

There is more to do to ensure we are meeting our customers' expectations in the digital world and our plan includes investment to fundamentally change a lot of what we do and offer a sector leading experience.

We have pledged to provide our service at a fair price and offer help when it's needed and we are going further than ever before to ensure our bills are affordable for all.

We need to deliver our plan in an efficient and sustainable manner – collaborating, innovating, executing brilliantly, with the customer always in our mind, whatever part of the organisation we work in.

Q – How are you investing in the future of the business?

A long-term approach is the key to sustained success, while at the same time being quick to embrace new opportunities. The Company has a strong track record in making the right investment decisions for the long term which means our customers today benefit from a better service.

Innovation continues to be an important area of development for the business and in the past year we have collaborated with companies including Vodafone and Technolog to invest in an intelligent water network, using acoustic technology and sensors in pipes to highlight leaks and issues in real-time. This way action can be taken swiftly to ensure our customers continue to receive a sufficient supply of safe, high-quality drinking water.

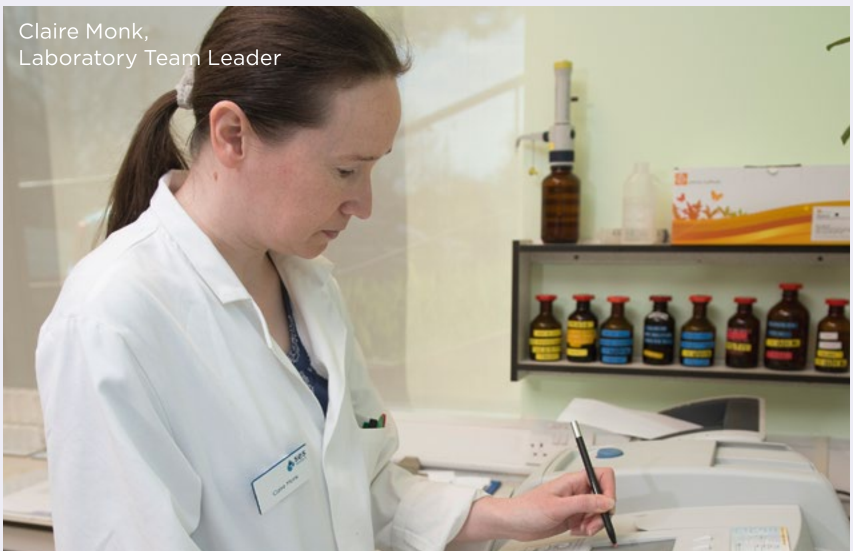
We have also invested in and launched a new website and will be introducing a new billing system later this year, giving our customers more tailored information about their water use and management of their own online account in a way that suits them.

Our customers quite rightly value the environment and expect us to play a part in making it better, which is clearly very important to us too. We have introduced a new independent Environmental Scrutiny Panel which will challenge us on our delivery and support our commitment to reducing the impact of our operations.

I have always believed that investing in people and unleashing the potential of well-motivated teams enables brilliant outcomes. A key element of this is improving our approach to comprehensive performance management and further supporting employees and managers through training and better online systems.

Finally, we have also recently been awarded the Investors in People (IIP) Silver award which is an independent endorsement of how we invest in our people and the enduring effort that goes into making the Company a better place to work. It's a real achievement considering only 20% of IIP accredited organisations gain the Silver award.

INVESTORS IN PEOPLE™
We invest in people Silver


Claire Monk,
Laboratory Team Leader

Q – How would you define SES Water's culture and what has impressed you most since joining the Company?

Throughout my career I have always loved being part of teams that strive every day to deliver something essential to communities and I am proud to have joined a values led Company that does this so well.

Since starting in my role, I have been impressed and inspired by the family feel and just how much pride people take in working here, recognising the importance of what we do. There is also pride in maintaining our track record in providing safe water supplies and excitement around getting involved in innovation, new projects and new ways of working, which will unlock opportunities for us all.

During my first month I tried to meet as many of our people across the organisation as possible, both within our office at Redhill and at our operational sites across our network. I was delighted to meet so many bright, energetic and committed colleagues and it is clear to see what drives the amazing average tenure in the Company of nine years. I also had the pleasure of listening in to customer calls with our retail, operations and customer services teams and was impressed by the clear information and reassurance given to our customers.

One call in particular stuck with me where the customer was clearly very worried about paying their bill, due to financial constraints. By the end of the call my colleague in the customer services team had put a financial solution in place and our customer was left feeling reassured. This is just one of many shining examples where I have seen our people go the extra mile to do the right thing and help us continue to deliver an excellent service.


Shubhneet Ghotra,
Service Improvement Lead

Q – What are your priorities for the year ahead?

My main focus is to ensure we are focusing on our customers in all that we do as we make headway in delivering our ambitious Business Plan for the next five years, all within the price controls Ofwat set in its Final Determination last year. The stretching targets we have set ourselves are based on what our customers told us was most important to them, including reducing leakage, improving satisfaction with our service, offering more affordability options and minimising the emissions created by our operations.

Clearly, we must also continue to respond calmly and considerately to COVID-19, building on the positive feedback we have had from our people and our customers.

I am under no illusion that the journey to delivering the first year of our plan will be even more challenging now. However, I am also confident that everyone in the Company will play their part in giving us the best chance of achieving our targets and I am extremely proud to be at the helm of the Company, at such an important time.

Ian Cain
Chief Executive Officer

14 July 2020

Market review

Responding to a changing environment

In December 2019, we, along with the rest of the water industry, received the Final Determination on our Business Plan for 2020 to 2025 from our economic regulator Ofwat.

We have accepted the determination which will see bills fall by 15.6% in real terms over the five-year period.

It followed a period of intensive engagement with Ofwat following its Draft Determination in July 2019, on which we made a number of representations. This resulted in us securing an additional £30 million of total expenditure, including investment for leakage reduction and improved network resilience.

Four water companies have not accepted their Final Determinations and instead have referred them to the Competition and Markets Authority for review, the outcome of which is expected later this year.

Beyond the price review the sector has been focused on delivery of its social purpose and transforming service – in particular, enhancing the role innovation will play in delivering more for our customers and the environment. At the heart of this has been greater collaboration between companies, with regulators, stakeholders and the wider supply chain which is set to continue.

Market drivers

Delivering resilient water supplies

“If we don’t take action, many areas will face water shortages by 2050. This report delivers the step-change in strategic and regional collaboration required to ensure the needs of all water users are brought together to better manage and share resources.”

Emma Howard Boyd, Chair of the Environment Agency

Going beyond the core service

“We will join forces with regulators, governments, companies and civil society to deliver our ambition: for the water sector to provide the very best service for customers, improve the environment and improve life through water.”

Rachel Fletcher, CEO, Ofwat

Enhancing the environment

“This transformative Bill is at the heart of our work. It will see us recycling more and wasting less, breathing cleaner air, planting trees, safeguarding forests, and supporting nature recovery as we work to tackle climate change and reach zero emissions.”

George Eustice, Secretary of State for the Environment

Managing the impact of the COVID-19 pandemic

“All water companies are working extremely hard at the absolutely critical work of providing customers with reliable water and waste services, while protecting their employees’ welfare as the UK contends with the effects of COVID-19. I have been really impressed by the professionalism and collaborative spirit the sector has shown in establishing sector-wide incident management processes to confront common problems and drive coordination between companies where possible.”

Rachel Fletcher, CEO, Ofwat

The English water companies are working together to achieve the industry's Public Interest Commitment, which includes five challenging goals.

Five challenging goals

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

What's happened?	What have we done?
The National Framework for Water Resources was published by the Environment Agency which sets out the strengthened role of regional groups in the water resource management planning process and provided the first ever assessment of the future needs of all water users in each region. It highlighted that half the additional water required by 2050, approximately 1.7 billion litres per day, was needed in the South East. The National Audit Office published a report into water supply and demand management that concluded that more needs to be done to secure resilient water supplies for the future including leakage and demand reduction and the development of new resources. The Regulators' Alliance for Progressing Infrastructure Development (RAPID) was formed, bringing together experts from Ofwat, the Environment Agency and the Drinking Water Inspectorate to work with companies as they investigate a number of strategic water resource schemes for the future.	– Worked as part of Water Resources South East (WRSE) to begin the development of a multi-sector regional resilience plan that will look ahead from 2025 to 2100. The draft plan will be published in early 2022 – Secured funding in our Business Plan to invest in reducing leakage and install meters in more than 90% of homes in our region by 2025 to help lower demand – Continued our 15-year plan to improve the connectivity of our network so we can move water around our area and supply all our customers from more than one treatment works – Started trialling smart meters in a small number of homes as part of our 'Every Drop Counts' in Tandridge campaign
Ofwat published its strategy – 'Time to act together', which aims to transform water company performance, meet long-term challenges through collaboration and partnerships and provide greater public value for customers, society and the environment. Ofwat announced a £200 million innovation fund would be made available between 2020 and 2025 to encourage companies to collaborate with each other and the supply chain.	– Continued to focus on delivering the industry's Public Interest Commitment which includes five challenging goals focused on reducing leakage, achieving net zero carbon emissions, eradicating water poverty, reducing plastic pollution and increasing social mobility – Led the water industry's programme of research into leakage, being delivered by UK Water Industry Research (UKWIR), which is bringing together water companies, academics and technology companies to drive innovation in this area and deliver significant reductions in leakage by 2050
The Government's Environment Bill, which will deliver the aspirations of its 25-year Environment Plan and its ambition to leave the environment in a better state than they found it, was introduced to Parliament. It includes measures to enhance the management of water resources and improve biodiversity. The National Framework for Water Resources set out expectations for water companies and regional groups to show greater environmental ambition by investigating whether more reductions to abstraction are needed to protect and improve rivers and groundwater sources, in particular chalk streams.	– Delivered 14 environmental improvement schemes between 2015 and 2020 and committed to carrying out 24 river-based investigations and improvement schemes between 2020 and 2025 – Supported Water UK in pushing for mandatory water labelling of appliances, fixtures and fittings in the Environment Bill to help reduce demand – Started work in partnership with our local Wildlife Trusts to increase biodiversity at three of our main sites – Committed to plant more trees on our land to help reduce our carbon footprint
The impact of the pandemic on the water industry has been wide ranging. Levels of sickness and self-isolation have impacted the workforce and social distancing has made the delivery of many aspects of our work challenging. The financial challenges facing many households are significant and there has been an increase in the number of customers defaulting on payments. The retail market has also been seriously impacted which has affected the collection of wholesale charges from retailers.	– We are working as part of an industry-wide incident management group to ensure the response to the situation is co-ordinated and effective. This has included securing key worker status for water company employees as well as working with Ofwat and MOSL on managing the impact of more businesses being unable to pay their bill – We stopped all non-emergency work during the period of full lockdown and our staff only entered customers' homes when absolutely necessary. Office staff moved to home working where possible and there has been restricted access to key sites – We've provided our customers suffering financial difficulties with a three month payment holiday, after which they will be moved onto our Water Support Scheme which provides a 50% reduction on future bills – We were the first company to donate to the Community Foundation for Surrey's Coronavirus Response Fund

Business overview

Our structure

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

Retail services

Dan Lamb
Head of Retail Services

Responsible for customer experience across a range of different channels.

Key functions
Billing, account management, household queries, complaints resolution and support options for vulnerable customers.

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.

Quality and compliance

Nicola Houlahan
Quality and Compliance Director

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

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

Business support and control

Paul Kerr
Chief Financial Officer

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

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

HR and Learning and development

Sarah Brown
Head of HR

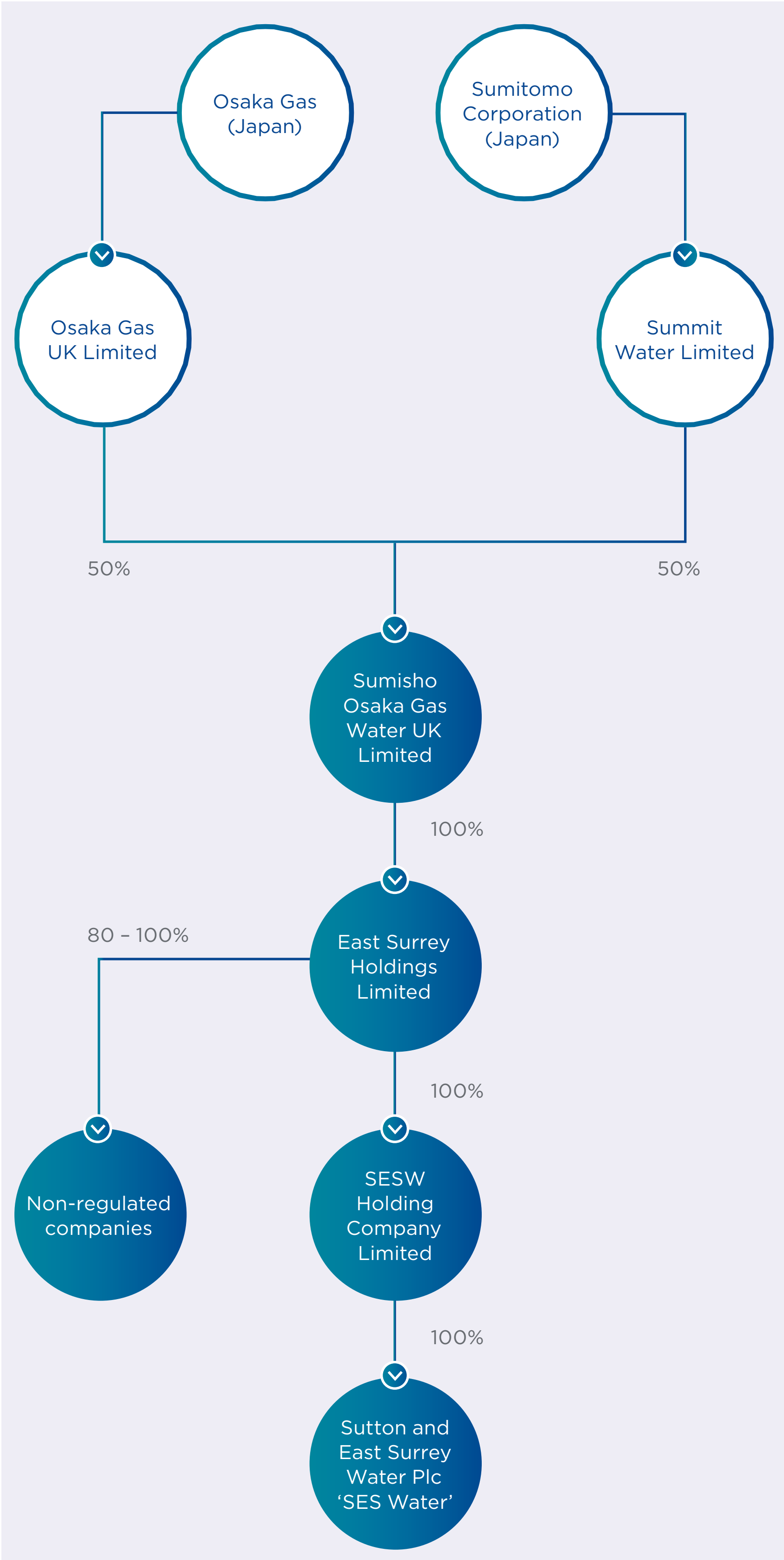
Responsible for the overall provision of human resources services, policies and procedures.

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

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

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 benefiting by bridging the gap from the supplement that other customers pay.

Like any investors they expect a return on the equity they put in and over time they have taken a fair level of dividend in line with allowed regulatory rates of return.

Our business model

Creating long-term value

Our vision

To be an outstanding water company that delivers service excellence

Inputs

Water resources

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

Employees

Developing and motivating our 310 employees, incentivising them to deliver a high-quality customer experience at every touchpoint with consumers of our services.

Customer engagement

Engaging customers with the role we all play in valuing water, encouraging behaviour change to protect resources and sharing ownership for how water is used, viewed and valued.

Water cycle

Water is collected

Groundwater sources provide 85% of our water with 15% coming from our river-fed reservoir.

Clean water is put into supply

Our 3,500+ kilometre network of pipes and 24 pumping stations deliver a continuous supply of clean water to our customers.

Maintenance and development

We constantly monitor our water treatment and storage sites and network, conducting maintenance and developing new infrastructure where necessary.

Water is cleaned

Our eight water treatment works clean raw water to the highest standards, making it safe to drink.

INVESTORS IN PEOPLE™
We invest in people Silver

Investors In People: Silver accreditation

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

The Institute of Customer Service
MEMBER

The Institute of Customer Service: Member

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

Playing our part in achieving the Public Interest Commitment:

Triple the rate of sector-wide leakage reduction by 2030

Achieve net zero carbon emissions for the sector by 2030

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. To do this our business model is reliant on a number of key resources and relationships that enable us to meet our obligations.

Suppliers

Building a strong relationship with those companies who work on our behalf and are key to the successful operation of our business.

Physical assets

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

Financing

Maintaining a robust capital structure, long-term cost-effective debt, shareholder support and a positive credit rating.

Water is tested

Each year we carry out 130,000 tests on around 13,000 samples at every point from source to tap.

Customers rely on our water

People need a reliable supply of safe, clean drinking water to their homes and businesses for their vital everyday needs. On average we supply 160 million litres every single day.

Customer service

We support our customers with all aspects of their water service.

Make bills affordable as a minimum for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty

Prevent the equivalent of four billion plastic bottles ending up as waste by 2030

Be the first sector to achieve 100% commitment to the Social Mobility Pledge

Outcomes

The value we share between our stakeholders:

Customers

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

Employees

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

Communities

We have provided grants to local causes through our community fund as well as extending our education programme to reach more schools, young people, businesses and community groups.

Regulators

Through regular consultation with all our regulators we have reduced our gearing to a level that is acceptable to Ofwat, updated our dividend and executive pay policies, reduced bills by 15% and are leading the industry's research and innovation programme to reduce leakage.

Local authorities

We are planning ahead for a 50% growth in the number of people living in our area by 2080 and working with others to limit the disruption of our essential work on local areas.

Our stakeholders

Understanding the needs and priorities of others to deliver our service

Employees

What they expect

Training and development opportunities

Fair pay and recognition of good performance

We attract and retain high-quality employees

We are a responsible local business that plays an active role in the communities that we serve

How we engage

Annual employee engagement survey

Roundtables involving all employees and the directors and CEO

Dedicated Board member responsible for employee engagement

Senior manager visibility and accessibility

Staff suggestion scheme

Structured development and appraisal programme

How engagement has impacted our decision making

New performance management system and skills strategy in place

Industrial cadets programme to attract young people to the Company

'Live local work local' initiative

Employee volunteering scheme

Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a two-year pay deal

Customers

What they expect

Our water to be high quality and safe all the time

Our service to be reliable and resilient

We reduce leakage

We help people cut how much they use

We keep our call centre local

We support vulnerable customers

We help to improve the environment

Our bills are fair and affordable, and we provide value for money

How we engage

Regular feedback surveys

Focus groups and workshops

Online 'Talk on Water' community

Education programme

Attendance at community events

Our independent Customer Scrutiny Panel

How engagement has impacted our decision making

Business plan targets reflect customer priorities including:

- 15% leakage reduction
- 7.3% reduction in consumption
- 25,000 people on our Water Support Scheme
- 100% of people will be served by more than one treatment works
- 90% of our customers on a meter

Our call centre will continue to be based in our local area

Bills will fall by 15.6% by 2025

Significant investment in our digital capability to better serve customers

Regulators

What they expect

We build trust and confidence in the sector

Our bills are affordable for all customers

We contribute to improving the environment

We increase our resilience to a range of events

We are efficient and innovative

We have a positive impact on society

How we engage

Regular meetings with all our regulators

Regulator attendance at Board meetings

Responding to consultations and information requests

How engagement has impacted our decision making

Reduced our gearing to a level that is acceptable to Ofwat

Updated our dividend and executive pay policies

Lowered bills by more than 15% and committed to supporting 25,000 people with our Water Support Scheme

Pledged to make £9 million of efficiency savings over the next five years

Leading the industry's research and innovation programme to reduce leakage

Signed up to the Social Mobility Pledge

A statement of directors on compliance with s172(1) of the Companies Act 2006 with respect to stakeholder engagement, reputation, environment and long-term decisions is found on pages 59 and 60 of this report

Understanding our stakeholders

We carried out extensive research with our customers and stakeholders to develop our Business Plan for 2020 to 2025. This important insight will continue to be collected through regular surveys and the implementation of our 'Voice of the Customer' programme to better inform the service improvements that we make. We have also established a new independent Environmental Scrutiny Panel to work with us as we deliver our plans to enhance the environment we rely upon.

Working in partnership

We work closely with many organisations in our area, collaborating where we can to achieve our shared goals.

Local authorities

What they expect

We plan ahead to meet the needs of a growing population

We soften our water in areas where it is naturally hard

We work with them and other parties to limit disruption to local areas

How we engage

Meetings with Chief Executives

Supporting local economic prosperity initiatives

Project-specific department engagement such as highways

Participation in local resilience forums

How engagement has impacted our decision making

Planned for a 50% increase in the number of people living in our area by 2080

Investing £11 million to deliver our softening operations and committed to keeping average hardness levels at no more than 80 mg calcium per litre per fortnight

Environmental organisations

What they expect

We are guardians of the natural environment

Our operations do not cause environmental damage

We play a role in enhancing the environment through our investment programme

How we engage

Involvement in our local catchment partnerships

One-to-one meetings

Independent Environmental Scrutiny Panel

How engagement has impacted our decision making

Specific targets in our business plan to:

- Not cause pollution
- Increase biodiversity at our sites
- Reduce abstraction from two sources during low flows
- Reduce our carbon emissions

Local community groups

What they expect

We play an active role in the communities we serve

We support those who are most vulnerable in our communities

We carry out work in roads and public spaces in a way that has minimal impact on communities and businesses

How we engage

Membership of local business forums

Field teams work with organisations that help vulnerable customers

Supporting good causes with volunteering time

How engagement has impacted our decision making

£30,000 of community grants provided through the Community Foundation for Surrey

Extending our education programme to reach more schools, young people, business and community groups

Moved 2,532 people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme

Provided payment holidays and automatic enrolment onto our Water Support Scheme to those affected by the COVID-19 pandemic

Operating review

Our performance

Ian Cain
Chief Executive Officer

Delivering our customer and environmental commitments in the final year of our 2015 to 2020 Business Plan.

Looking back on our performance over the past 12 months, I am pleased to report we have finished strongly in what has been a very encouraging five-year period for the Company. We have continued to meet the expectations of our customers in the areas that matter most to them, as well as consistently meeting the majority of our regulatory targets each year. This has not been without navigating through some very significant challenges along the way, in particular the extremes in weather and more recently, the COVID-19 outbreak.

There are countless examples of our people going above and beyond to deliver our vision of service excellence. It is thanks to their skills and commitment that we were in a position to put forward the most ambitious plan in our history for the next five years and I look forward to seeing us deliver on our promises as one of the leading companies in the industry.

Before taking a look at the pledges we have made (on pages 34 and 35), what follows is a summary of our performance in 2019/20 against our five aims and our overall aim to be a well-run, respected and successful business.

OVERALL AIM

Continue to be a well-run, respected and successful business

We take our role – to provide an essential public service – very seriously indeed. However, we don't just supply water. We are a small, local company that plays an active part in the areas we are privileged to serve and have been deeply embedded in local communities for over 150 years.

This year we donated £30,000 to local good causes through our community fund, in partnership with the Community Foundation for Surrey and have given 212 hours of our employees' time through our 'Give-a-Day' scheme, which enables individuals to use their skills to help others in need. We were also the first company to make a donation to the Community Foundation for Surrey's Coronavirus Response Fund, supporting local groups assisting vulnerable people throughout the crisis.

There are countless examples of our people going above and beyond to deliver our vision of service excellence.

Customer's view

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

Customer on our Priority Services Register during the COVID-19 outbreak

We are also proud to have been awarded the Investors in People (IIP) Silver accreditation this year, which is a significant achievement, especially as only 20% of IIP accredited organisations attain this level and the new assessment this year was more challenging than prior years. The independent process gives people the opportunity to express their feelings about the Company as an employer and it was pleasing to see a high response rate for the employee survey element, ensuring a representative view across each department. We chose to be a part of IIP to show that we have what it takes to lead, support and manage our employees for sustainable results, as well as helping us understand our capabilities and gain new insights into how we can improve.

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, disappointingly there have been three minor lost time accidents this year and two incidents which resulted in the employees needing extended time off work, so were reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). Through thorough investigations of the circumstances we will continue to make sure we understand what we can learn from these incidents, working in conjunction with our dedicated employee Safety Committee.

Recognising the importance of mental wellbeing too, our 'Aqualibrium' programme has continued to support employees with a range of services from lifestyle questionnaires to confidential counselling and Mental Health First Aiders.

1

AIM 1

To provide a reliable and sufficient supply of safe, high-quality drinking water

We are proud to be one of the best performers in the industry for keeping customer supply interruptions to a minimum. While we aim for no customers to lose supply, this year we are pleased to have more than met our regulatory target limit, requiring us to minimise interruptions that affect customers for longer than three hours to less than two minutes per household – that's amongst the very best performance in the industry.

Another area of very strong historical performance is the low number of burst mains year on year. The number of bursts this year has fallen again, reflecting the general good health of our network and the work that goes into maintaining it, such as pressure management and sustained targeted investment.

High-quality water is our customers' number one priority and while the Company's result for the 12 months to the end of 2019 is not as high as we have achieved in recent years, our result of 99.94% for the Overall Drinking Water Quality Index, just missing our target by 0.01%, still represents a good performance in respect of treated and distributed water quality.

Our performance last year reflects five breaches of the water quality standards at customer properties, two due to traces of lead and three due to iron. One of the lead failures was outside of our control as it related to a high concentration of lead in the water at the customer's tap. In the other we replaced our lead pipe and recommended that the customer replace theirs to ensure the highest standard of water quality.

Three exceedances due to iron in a year is a very rare and unexpected occurrence. Thorough investigations did not identify any cause in two of the three cases, the third being due to an unusual pressure surge disturbing naturally accumulated sediment in the mains network.

We have a challenging target to minimise the number of customers who need to contact us about the taste, smell or appearance of their water. In 2019 we received 329 contacts, which is one contact for every 2,150 customers. This is our best result over the past five years and below our target limit of 350 contacts. It also represents some of the very best performance in the water industry in this area.

2

AIM 2

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

In total 7% of customers questioned felt that their water bill is not good value for money. Our average household bill for 2019/20 was £200, which works out at just over 50p a day and a 2.7% rise on the previous year.

Most of our customers do not struggle to pay their bills but we recognise that for some people it can be a challenge, even temporarily, so we were very quick to introduce a three month payment holiday for those people whose income has been affected by the COVID-19 pandemic. After this period they were also automatically registered onto our Water Support Scheme for nine months which provides a future 50% bill discount – there are now more than 14,000 eligible customers receiving this support, significantly more than our target of 5,000.

Operating review Continued

We have repatriated 2,532 customers so they are billed directly by us rather than their housing association and supported this with informative drop-in sessions on all things water and in particular the extra support we can offer.

More affordable bills for more customers means lower bad debt which is the cost of water charges that we are unlikely to collect. Unfortunately bad debt has risen considerably this year and we have missed our target to keep it below 1% of turnover. There is more information about this increase on page 103.

3

AIM 3

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

We had no restrictions on the use of our 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 – typically only fill up between October and March when there is less plant growth and evaporation. Approximately 85% of our water resources are supplied by these acquifers.

In October 2019 we put out an early warning that a temporary use ban might be needed in the spring as rainfall levels had been below average for some considerable time and we had reached the triggers in our Drought Plan. However, no restrictions were necessary as we had one of the wettest winters on record so our groundwater levels were above average from December through to March. Overall winter rainfall was recorded at 160% of the long term average.

By March 2020 our aim was for 56% of properties to be supplied by more than one treatment works, helping us to keep customers' taps running, particularly during site failures and burst mains. We achieved this target through our ongoing investment programme which also saw us start work to lay a new trunk main between Blindley Heath and Outwood reservoir, approximately 4.3 kilometres in length, which will be completed later this year. Our work in this area is set to continue over the next five years and by 2025 our target is for all customers to be supplied by more than one treatment works.

We have also been working hard to upskill our workforce responsible for maintaining the resilience of our network. Earlier this year 19 of our network operatives attended a one week 'Repair and Maintenance' bootcamp, as part of a joint initiative with Severn Trent Water. The post-course survey results showed a huge increase in levels of confidence among our people in using specialist equipment and techniques. It also provided a good opportunity to share learning resources across the sector.

4

AIM 4

Deliver consistently high levels of service

Satisfaction with the overall water service we provide is high at 89%, just below the 91% target and we continue to work hard to improve further with an aim of achieving 100% customer satisfaction. This score was generated from our household satisfaction survey which was completed by a random representative sample of 400 customers during the year and asks about important topics such as continuity of supply, pressure and taste.

This year we have been measured against C-MeX – the new industry metric for measuring customer service and experience across all companies, which replaced the Service Incentive Mechanism (SIM), the previous industry customer satisfaction measure, in shadow form from May 2019. The new metric works by scoring companies out of 100 points and is formed using two surveys – one based on customers' experiences when they have had to contact us and the other a customer experience survey, which focuses on customers who have not necessarily been in contact with us and will score us based on their perception of the Company. We achieved a C-MeX shadow score of 72.85, against our target of 83.0.

We made good progress throughout the year with some targeted interventions and improvements but disappointingly have fallen short of the target we set ourselves.

Additionally, as noted in Ofwat's Final Determination on our Business Plan for 2020 to 2025, we were levied with a regulatory adjustment of £2.3 million in respect of our PR14 SIM performance.

As part of our two-year customer transformation programme we launched a new website earlier this year, which was developed in collaboration with our customers, which is the first phase of the biggest change we have made to our online presence in more than ten years. The website has a new look and feel and streamlined content to make it much easier to use for our customers and the feedback and usage statistics have been very positive.

With input from our customers we have also re-designed our bills to make them clearer and easier to understand and will continue to make improvements to this key area of customer communication.

Meanwhile, we remain on course to implement our new billing solution later this year. The system will enable us to improve the quality of service we offer to customers by managing their enquiries and needs in a much more effective and efficient way, meaning we will be able to process customer contacts and enquiries faster than we ever have before.

We are now at a five-year low of fewer than eight complaints per 1,000 properties and while this means we have not met our target this year, it demonstrates that the changes we are making as part of our customer transformation programme, such as increased training and simplified processes, are working, but there is clearly more to do.

5

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 21st successive year and we continue to have one of the lowest levels of leakage in the industry. That said, we are of course still focused on doing more and we have teamed up with Vodafone, Royal HaskoningDHV and Technolog to implement ground-breaking technology to create a self-learning network that allows us to recognise and highlight issues in real-time. This innovation will speed up our response time to network events, reducing the runtime and impact of leakage, bursts and supply interruptions as well as helping us to better target our investment to repair and replace our water mains in the future.

We operate in a region which is classified as being in 'serious water stress' due to the size of the population and the amount of rainfall we receive. We know this is going to become even more challenging in the future because of population growth and climate change which is why we have a target to reduce household water use. This will help us increase our resilience to drought and reduce how much we take from the environment. We have met our target this year to reduce customer usage and have continued to increase the number of water meters we have installed – over 8,000 in total this year and over 36,000 since 2015 – which is one of the most effective ways to influence behaviour and educate our customers about their consumption.

We have also trialled smart meters amongst customers living in the Tandridge area through our 'Every Drop Counts' campaign. Two smart devices – standard and advanced – have been installed in 220 homes in the area, allowing customers to track usage and identify leaks at an early stage. The data and insights from this trial have already proved invaluable and the advanced 'Waterfall' device, developed in partnership with Creative EC, has already been shortlisted for an industry award.

Meanwhile our education activity with children and adults across our area continues to go from strength to strength. This year we have reached more than 12,000 people through school visits to our Bough Beech reservoir and attending local community events to spread our water saving messages. We also ran our first ever week-long 'Industrial Cadets' work experience programme supported by the Engineering Development Trust (EDT), which saw 14 students aged 14 to 17 understand more about how the UK water industry works. It was so successful that it is now a regular annual fixture in the calendar.

We have unfortunately reported five separate pollution incidents in the past year, including one previously unreported in our 2018/19 Annual Report. While this number of pollution events is higher than we would usually expect, they were all categorised as low level, with minimal impact on the natural water environment. All of the incidents were linked to the release of treated water associated with burst mains and have since been closed by the Environment Agency.

In the past year we have also increased our fleet of electric vehicles to 12 across the Company, as part of our ongoing partnership with Drax to trial Nissan electric vans for five years. The trial is expected to deliver carbon savings of at least 43 tonnes of CO_2 per year as well as improve the air quality in the communities we serve – extremely important as we work towards our industry commitment to achieve net zero carbon emissions by 2030.

"As part of our customer transformation programme we launched a new website earlier this year, developed in collaboration with our customers, which is the biggest change we have made to our online presence in more than ten years.

Customer's view

"All of you at SES Water have been fantastic with helping me deal with this very unfortunate situation – you've shown nothing but kindness and consideration to me and have gone above and beyond. So, thank you."

Mrs Andrews, Redhill

Operating review

Continued

Delivering on our promises

These are our performance commitments

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 these tables summarise our performance against each target for this year and the previous year too.

Water softening

We are unique in the water industry in having a legal obligation to soften the groundwater we treat, and we have made significant capital investment in our softening capability over the years, including the recent development of our Woodmansterne Treatment Works. Specific allowances have been agreed with Ofwat to fund this requirement and a level of softening has been agreed with Ofwat as part of our Final Determination – to ensure that average hardness levels do not exceed 80mg calcium per litre per fortnight, which meets the Drinking Water Inspectorate classification of 'moderately hard' water. Softening to such an average hardness level is deemed appropriate in terms of balancing cost and benefit for our customers. However, we will always reduce or stop softening if it poses a risk to the quality of water to ensure we meet the strict requirements of the Water Industry Act. Our activity to meet the target will be regularly scrutinised by one of our independent non-executive directors and we will provide updates on our performance in our annual reports. Read page 34 which details this performance commitment in the context of our Business Plan for 2020 to 2025.

OUR OVERALL AIM

Continue to be a well-run, respected and successful business

Measure	2019/20 performance	2018/19 performance	Target/target limit
Financial support to charities and the local community	£38,223	£18,889	Increase support
Financial health	Achieved	Achieved	Achieve budget
Health and safety incidents	5	4	3

AIM 1

1

To provide a reliable and sufficient supply of safe, high-quality drinking water

Measure	2019/20 performance	2018/19 performance	Target/target limit
Supply interruptions over three hours (average hours per property)	0.02	0.27	0.20
Number of bursts	172	255	290
Overall water quality	99.94%	99.97%	99.95%
Taste, odour and discolouration contacts	329	388	350
Water softening	Delivered	Delivered	Deliver programme
Security of supply index	100%	100%	100%

2

AIM 2

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

Proportion of customers who believe their bill is not good value

2019/20 performance	2018/19 performance	Target/target limit
7.0%	8.0%	<15%

Customers on our Water Support Scheme

2019/20 performance	2018/19 performance	Target/target limit
14,311	10,401	5,000

Bad debt as a percentage of turnover*

2019/20 performance	2018/19 performance	Target/target limit
2.69%	1.82%	<1.0%

* The 2018/19 bad debt provision has been restated as per the financial statements; the performance commitment relating to bad debt has therefore been restated to 1.82% for 2018/19 from the previously reported amount of 1.01%. Read page 103 for more information.

3

AIM 3

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

Water restrictions

2019/20 performance	2018/19 performance	Target/target limit
0	0	1 in 10 years

Proportion of properties supplied by more than one treatment works

2019/20 performance	2018/19 performance	Target/target limit
56%	56%	56%

4

AIM 4

Deliver consistently high levels of service

Customer satisfaction with their water service

2019/20 performance	2018/19 performance	Target/target limit
89.0%	91.5%	91.0%

C-MeX shadow score

2019/20 performance	2018/19 performance	Target/target limit
72.85	n/a	83.0

Number of complaints
(per 1,000 properties)

2019/20 performance	2018/19 performance	Target/target limit
7.5	8.0	6.6

D-MeX shadow score

2019/20 performance	2018/19 performance	Target/target limit
74.83	n/a	83.0

5

AIM 5

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

Leakage
(Ml/d)

2019/20 performance	2018/19 performance	Target/target limit
23.9 Ml/day	24.1 Ml/day	24.0 Ml/day

Environmental education programme

2019/20 performance	2018/19 performance	Target/target limit
12,179 people	11,798 people	10,000 people

Customer usage reduction
(per person per day)

2019/20 performance	2018/19 performance	Target/target limit
153.1 litres	162.6 litres	156.9 litres

Greenhouse gas emissions
($kgCO_2eq/Ml$)

2019/20 performance	2018/19 performance	Target/target limit
56	91	57.1

Pollution incidents*

2019/20 performance	2018/19 performance	Target/target limit
4	1	0

* In our Annual Report for 2018/19 we reported that there were no pollution incidents in the year, which was incorrect. In 2019/20 we have reported five separate pollution incidents to the Environment Agency, which includes one for the previous year. See page 19 for further information.

Mr Bolt from Carshalton:
"Thank you for the seven years of service from Wallington and Carshalton. Always good service and the water quality is fantastic. I hope where I am going it will be the same. Thank you very much."

1

OUR AIM:

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

Tim Birch,
Laboratory Team Leader

Our aim in action

This year we have carried out over 133,000 tests and processed more than 13,000 samples to monitor the quality of our sources and the water leaving our treatment works to maintain our excellent water quality performance.

Beck Anderson, Section Manager, testing water at a tap

Highlights

- Very low level of customer concerns about their water supply
- Industry leading low level of burst mains, demonstrating the resilience of our pipe network and the work that goes into maintaining it
- Very few interruptions of over three hours to customers' supplies
- We have replaced 16.8 kilometres of ageing water mains in the past year

329

customers contacted us in 2019 about the taste, smell or appearance of their water which is the lowest level in five years

Read more about our Aims in the Operating review on page 16

Mrs Davies from Reigate:
"Thank you so much for being one of the few suppliers actually making this easier on people, instead of taking advantage of the situation. You could teach my energy company a thing or two! I can't thank you enough."

2

OUR AIM:

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

Katie Mason,
Affordability & Priority Services Lead

14,311

customers are benefitting from our Water Support Scheme which provides a 50% bill discount to those who need it

Our aim in action

This year we have been able to support even more customers to pay their bill as well as raise more awareness about the extra support on offer.

Highlights

- The vast majority of customers think their bill is good value for money
- We have repatriated 2,522 customers to be billed directly by us rather than their housing association and supported this with informative drop-in sessions on all things water
- The average household bill was £200 which works out at just over 50p a day and a rise of just over 2.7% on the previous year
- We quickly introduced a payment holiday for those people whose income has been affected by the COVID-19 pandemic

Read more about our Aims in the Operating review on page 16

Miss Piper from Cobham:
"I would just like to take the opportunity to say thank you for all your support and help. Every time I call you provide really good customer service and are a good company. I do worry about things but you reassure me. So, thank you very much."

3

OUR AIM:

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

Simon Thomson,
Project Manager

Our aim in action

We work very hard to target investment where it is needed most to ensure we can continue to provide a reliable supply of water to our customers now and for many years to come.

Woodmansterne Treatment Works development

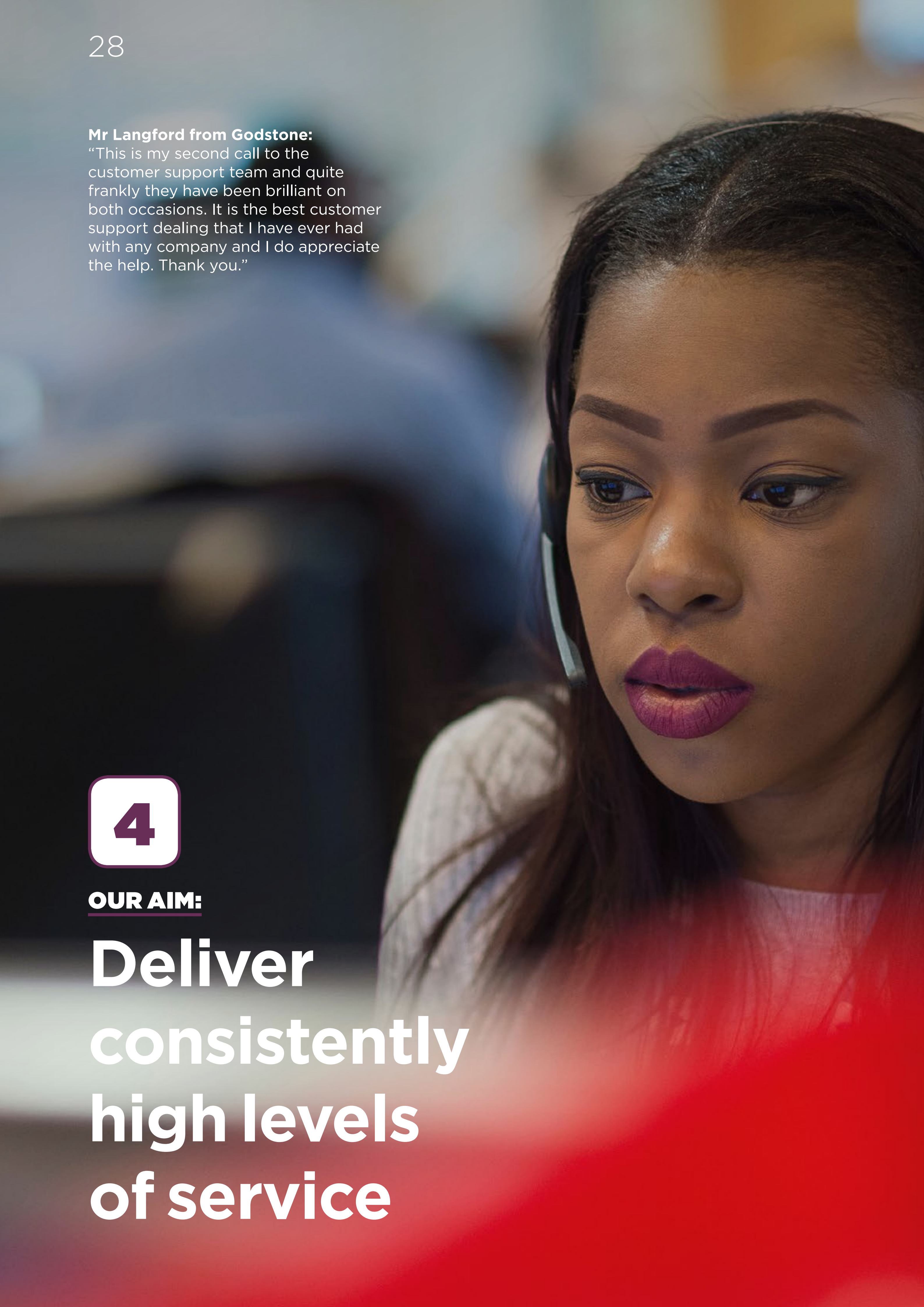
Highlights

- We completed the upgrade to Woodmansterne Treatment Works – our largest ever single investment – to increase output and flexibility
- As part of our longer-term aim to ensure that every customer can be supplied by more than one treatment works by 2025, we progressed with laying a new trunk main between Blindley Heath and Outwood
- Despite some very low groundwater levels at the start of the year, no restrictions on water use were necessary
- Training completed to upskill our workforce included 19 of our network operatives attending a one week ‘Repair and Maintenance’ bootcamp

£35.6m

capital investment made this year in our assets, including treatment works, storage reservoirs and our pipe network

Read more about our Aims in the Operating review on page 16



Mr Langford from Godstone:
"This is my second call to the customer support team and quite frankly they have been brilliant on both occasions. It is the best customer support dealing that I have ever had with any company and I do appreciate the help. Thank you."

4

OUR AIM:

Deliver consistently high levels of service

Anna Iwobi,
Customer Services Advisor

89%

of customers are satisfied with their water service

Our aim in action

We want to become the industry leader for customer satisfaction and to get there we are fundamentally changing a lot of what we do and significantly investing in our people and the systems they use.

Highlights

- We launched our new website, developed in collaboration with our customers, which is the first step in revolutionising how our customers can interact with us online in a way that suits them
- We are on course to launch a new billing system later in 2020 which will greatly improve the service we can offer by processing customer contacts and enquiries faster than we have before
- With input from our customers we have completely re-designed our bills to make them clearer and easier to understand
- We launched a new web chat function on our website as a new method of contact for our customers, while our call handling capability was scaled back during the COVID-19 outbreak

Read more about our Aims in the Operating review on page 16

Mr Platt from Sutton:
"Many thanks to SES Water for fixing our leak. Woke up to find no water due to a separated pipe in the front garden. Reported at 7:30am, water turned off by 8am, repair made and supply restored by 1pm. Key workers by any other name. Thank you."

5

OUR AIM:

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

Jack Nicol,
Network Data Lead

Our aim in action

We are committed to reducing the impact of our operations and will continue to implement more sustainable ways of pumping, treating and distributing millions of litres of water every single day.

Highlights

- We have met our leakage target for the 21st successive year and teamed up with key technological partners to test more innovative ways of reducing it further
- We have fully rolled out our five-year trial of 12 electric vehicles
- More than 8,000 new water meters have been installed this year, including a trial of smart meters
- The smart meter 'Waterfall' device, developed in partnership with Creative EC to provide more accessible information about water use, has been shortlisted for an industry award
- Our successful education programme has continued, engaging with more than 12,000 people across our supply area

43

tonnes of CO_2 are saved each year thanks to our ongoing electric vehicle trial

Read more about our Aims in the Operating review on page 16

Customer Scrutiny Panel report

An independent voice on our plans and performance

Graham Hanson
Chair, SES Water
Customer Scrutiny Panel

> The 'Voice of the Customer' programme will help to provide a richer picture of customer needs to help drive ongoing service improvements.

The role of the Customer Scrutiny Panel (CSP) is to ensure that the interests and expectations of SES Water's customers are being put at the heart of the Company's activities. The group is comprised of a selection of independent members who represent a wide spectrum of customer interests and have unique expertise in areas such as consumer matters, sustainability and community engagement. It also includes representatives from a number of organisations including CCW (the water industry's consumer watchdog), the Environment Agency, local authorities, environmental and consumer support groups. The CSP has two key roles:

1. To provide assurance to Ofwat on how customer engagement is carried out and used to inform the Company's Business Plan
2. To monitor and scrutinise the Company's ongoing performance against its targets and other key areas of activity and communications that involve or impact customers.

Business Plan 2020 to 2025

The primary role of the CSP over the previous two years has been to scrutinise and challenge the Company's programme of customer engagement that was used to inform its Business Plan for 2020 to 2025 to provide assurance to Ofwat on the quality of the engagement and the extent to which it was reflected in the plan. This culminated with us providing a comprehensive report to Ofwat alongside the Company's Business Plan in September 2018 and a further submission in April 2019 following Ofwat's initial assessment of the plan.

"Making transparent and ambitious decisions associated with the environment is an essential part of SES Water's future work in delivering its social purpose. The new panel will bring a greater level of external challenge to the Company's activities in this area and the Company will benefit from the contribution of a selection of experts in strategy, risk and engagement. My vision for the panel is to inspire and challenge SES Water to develop a long-term environmental strategy that is credible in the eyes of its customers and stakeholders."

Alison Thompson, Chair, SES Water Environmental Scrutiny Panel

This year our formal role in the business planning assurance process to Ofwat came to end. However, we have continued to review and feed back to the Company about the Ofwat determination process to ensure that the final plan delivers the best outcomes for customers. This included the CSP putting forward a representation to Ofwat, following its Draft Determination in July, highlighting areas that we felt could have a negative impact on the expectations and priorities of customers as concluded from the Company's customer research findings. Our representation focused on four main areas – cost efficiency, investment in resilience, leakage and water softening – and were also highlighted by the CSP directly with Ofwat at the Company's formal meeting with the regulator as part of the final determination process.

We asked Ofwat to strike an appropriate balance between realistic cost efficiency and necessary and justifiable enhancement expenditure to ensure the agreed customer priorities could be met. We also made a specific representation related to Ofwat's decision to remove funding and the performance commitment associated with SES Water completing the final phase of its 15-year resilience programme, which was a priority for customers and something they had stated a willingness to pay for.

Likewise, we supported the Company's case for additional 'enhanced' expenditure to be included for leakage reduction activity, specifically mains replacement; and the Company's proposal for a more graduated and structured outcome delivery incentives (ODI) to better reflect the reality of the impact of softening on customers.

The panel was pleased that Ofwat took account of its representation. Funding for the resilience programme was included in the Final Determination along with an associated financial incentive, as was additional funding for leakage reduction and a revised ODI for softening. Overall, we are satisfied that the Company's Business Plan for 2020 to 2025 reflects what matters most to customers and if implemented effectively will deliver their priorities at an affordable price.

Scrutinising performance

The CSP meets with SES Water on a quarterly basis to review its current performance against its agreed commitments in the Company Business Plan, and provide constructive challenge on key areas of activity. The panel recognises there are a number of strong areas of Company performance such as supply interruptions, burst mains, leakage reduction, the lowest ever number of contacts about water quality and a further increase in customers receiving financial support. These are all priority areas for customers where Company performance is amongst the best in the industry.

There are also areas where targets have been missed this year which the Company needs to continue working on as it moves into the next Business Plan period. This includes reducing household water use, on which the CSP will work closely with the Company over the coming year as it develops its plans to install more meters and support customers to achieve the behaviour change required, while also protecting those who are financially vulnerable.

We have been closely monitoring the implementation of the new C-MeX measure of customer satisfaction which replaces the Service Incentive Mechanism (SIM) that has been used previously to measure customer service performance. This is an area where the Company has consistently missed its target and although there is some improvement in its ranking, it continues to be one of the lowest performers in the industry against the new C-MeX measure. The panel recognises the strides the Company is making through its customer transformation programme and there is evidence that performance in this area is getting better. However, the CSP has consistently maintained that effort must be sustained and key initiatives, such as the new billing system, must be implemented successfully in order to facilitate enhanced performance in this area. Likewise, progress made to reduce complaints to an acceptable level must be continued.

Looking to the future

The Business Plan for 2020 to 2025 includes some challenging targets, many of which are dependent on ongoing communication and engagement with customers. Maintaining a conversation with customers and using all sources of insight to help improve performance and shape activity will be critical to success. The CSP has therefore been pleased to see the progress the Company has made in implementing its 'Voice of the Customer' programme which it hopes will help to provide a much richer picture of customer needs and priorities to help drive ongoing improvements to service.

The panel also supports the Company's decision to establish an independent Environmental Scrutiny Panel (ESP) which will work alongside the CSP to give additional specific focus to the Company's environmental aspirations and performance which is such an important part of its ongoing programme of work. Alison Thompson has been appointed as Chair of the ESP and she and I will attend both ESP and CSP meetings as the panels work together constructively to support the Company's delivery of its Business Plan.

Graham Hanson
Chair, SES Water Customer Scrutiny Panel

14 July 2020

Our future plan

At a glance: five customer and environmental pledges

Our Business Plan for 2020 to 2025 started on 1 April 2020. We carried out extensive research with our customers and stakeholders as we developed our plan to understand their priorities and ensure our service meets their needs.

We have made five pledges to our customers which reflect what they told us was most important to them, which we will deliver over the five-year period. Under each pledge we have a number of targets or ‘performance commitments’ we must meet – 25 in total.

Some of these targets are common to all water companies in England and Wales; others are unique to us as they reflect our customers’ priorities.

Each year we will report on our progress against our targets through our Annual Report. If we fail to meet certain targets, we will receive a financial penalty and if we exceed them, we will receive an outperformance payment. This table sets out all our targets and the level of performance we aim to achieve by 2025. It also shows which have a financial incentive against them.

Key

− Underperformance penalty

\+ Outperformance payment

Target	Our target by 2025	Financial incentive
We will provide you with high-quality water all day, every day		
Provide high-quality water	To keep water quality at industry leading levels as measured by the Drinking Water Inspectorate’s Compliance Risk Index	−
Taste, odour and appearance contacts	To receive no more than 0.50 contacts per 1,000 customers about the taste, smell and appearance of their water *(366 in year one)*	−
Supply interruptions (longer than three hours)	To ensure no more than an average of 5 minutes lost per property per year	+ −
Number of burst water mains	To ensure there are no more than 59 bursts per 1,000 kilometres of water main	−
Water softening	For average hardness levels to not exceed 80mg calcium per litre per fortnight	−

We will provide your service at a fair price and offer help when you need it		
Customers on our Water Support Scheme	For 25,000 eligible customers to be on our Water Support Scheme that will provide a bill discount	−
Customers on our Priority Services Register	For at least 7% of our customer base (approx 50,000 people) to be on our Priority Services Register (PSR) and to check 90% of our PSR data every two years	

Awareness of support for vulnerable customers	For 68% of customers asked to be aware of our Helping Hand Scheme and PSR
Helpfulness of support for vulnerable customers	For 80% of customers asked to feel that the extra services we offer are helpful
Deliver value for money	For no more than 6% of our customers asked to feel that we do not offer good value for money
Number of void properties	To ensure that connected properties that are shown as vacant so not billed only account for 2.2% of all properties

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

Risk of supply failure – proportion of properties supplied by more than one treatment works	For 100% of properties to be able to be supplied by more than one of our treatment works
Leakage	To reduce the amount of water that is lost each day from our network and your supply pipes by 15%
Manage impact of severe drought	For no customer to be at risk of severe supply restrictions such as standpipes or water rationing during a one in 200-year drought
Unplanned outage at treatment works	For an unplanned outage to only amount to 2.3% of our total peak week production capacity

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

Customer satisfaction (C-MeX)	To achieve upper quartile in the industry league table
Developer satisfaction (D-MeX)	To achieve upper quartile in the industry league table
First time resolution of customer contacts	For 90% of contacts to be resolved first time

Support a thriving environment we can all rely upon

Household water usage	To reduce the average amount of water used by each person by 6.6% in the three-year rolling average
Greenhouse gas emissions	To limit our emissions to 55Kg of CO_2 per million litres of water we supply
Pollution incidents	To not cause any category one or two pollution incidents as measured by the Environment Agency
Manage abstraction	To limit abstraction from two chalk boreholes to an average of 7 million litres or peak 12 million litres per day when groundwater is low
Biodiversity of our sites	To achieve and maintain The Wildlife Trust's Biodiversity Benchmark at three of our sites
Improve rivers through delivery of the Water Industry National Environment Programme (WINEP)	To deliver 24 river-based investigations or improvement schemes To complete the required number of schemes each year

Working in the public interest

We are proud to have played an important part in people's daily lives for well over 150 years – but we don't just supply water

As a responsible local company deeply embedded in the community, we don't just want to be seen as a supplier of water.

We want to play an active part in improving the areas we are privileged to serve, including playing a full role in tackling wider social and environmental challenges.

Water companies play a unique role in running a vital public service for the public good. The industry wants to do more to meet the high expectations which rightly come with that role and we are all working collaboratively to achieve the industry Public Interest Commitment which includes five challenging goals to:

- Triple the rate of sector-wide leakage reduction by 2030
- Make bills affordable as a minimum for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty
- Achieve net zero carbon emissions for the sector by 2030
- Prevent the equivalent of four billion plastic bottles ending up as waste by 2030
- Be the first sector to achieve 100% commitment to the Social Mobility Pledge

A summary of our achievements so far:

Focus	Business area	Outcome
Our people	**Investors in People accreditation**	Achieved Silver award in 2020, reflecting the many great things we do to lead, manage, develop and support our employees
	Health and safety	Commissioned an independent third party review of our health and safety approach with a resulting action plan
	Gender pay gap	Published our report for 2019 with a commitment to work to further close the gap
	Social Mobility Pledge	Signed the pledge and supported with new Industrial Cadets programme to provide work experience opportunity to secondary school students
	Local employment	Supported 'Live Local, Work Local' scheme with Reigate & Banstead Borough Council
	Apprenticeship levy	Upskilled nine employees in our first year of using the levy, across roles including Leadership, Project Management and Customer Service
	Supply chain partners	Further developed the 'One Team' approach to improve how we work with our key suppliers

Focus	Business area	Outcome
Our people	**Employee engagement**	Our Joint Negotiation and Consultative Committee (JNCC) has continued to play a constructive role, including negotiating a new pay deal
	Senior visibility and accessibility	Regular director roundtable sessions as well as job shadowing and online engagement
	Mental health support	Over 20 trained Mental Health First Aiders encouraging staff to talk more freely and reduce stigma
	Improving wellbeing	Dedicated 'Aqualibrium' programme with focus and support based on annual health check results
Our customers	**Customer Scrutiny Panel**	An independent voice on our performance with stakeholders that reflect the interests and expectations of our customers
	Water Support Scheme and Priority Services Register	Over 14,000 customers are now registered for our social tariff to receive a 50% reduction on their bills. More people with additional needs are now registered for tailored support so we can better help them
	Payment holiday scheme	In response to COVID-19 we quickly set up a payment holiday scheme for customers affected by the outbreak. Over 3,000 people registered who were eligible for a three month break from paying their bill
	New 'Voice of the Customer' programme	Significant investment to better utilise insights from our customers to improve the service we provide
Our environment	**Environmental Scrutiny Panel**	An independent voice on our approach to delivering our strategy and our commitment to helping to improve the environment for all
	Reducing single-use plastic	Supported the nationwide Refill scheme by opening a public drinking water point at our Redhill head office as well as supporting local council initiatives across our supply area
	Reducing leakage	We have met our leakage target for the 21st successive year and are well underway with new technology innovations and partnerships to meet the challenging targets we have set ourselves over the next five years
	Education programme	Over the past year we have engaged over 12,000 people about the link between their water supplies and the wider environment
	Carbon emissions	We only use 100% renewable electricity, have increased our own solar generation and further progressed our electric vehicle trial
	Environment Employee Committee	Dedicated departmental representatives working with their teams towards their agreed annual targets
Our community	**Give-a-Day programme**	212 voluntary hours were given by our people over the year to help others, including local environmental initiatives, foodbanks and tree planting
	Charitable giving	Launched our community fund in partnership with the Community Foundation for Surrey – £30,000 was awarded in grants to ten local groups helping over 5,000 vulnerable and disadvantaged people
	Crisis support	We were the first company to donate to Surrey's Coronavirus Response Fund, supporting local groups assisting vulnerable people
	Increasing water efficiency	Grants provided through our 'Every Drop Counts' fund to five local non-profit groups to support them in using water more wisely
	Community engagement	We went to many local events last summer to talk to thousands of our customers about the importance of water
Our conduct	**Policies and procedures**	As part of our comprehensive governance processes, we have reviewed and updated key documents through our Audit Committee
	Enhanced focus on compliance	Following failings in other areas of the industry, we have further encouraged and empowered all employees to speak up and report anything that does not seem right
	Training and development	All mandatory training has been completed
	Legal awareness	Enhanced training from our legal advisors on key subjects for all senior managers

Working in the public interest Continued

A spotlight on...

The next generation of water workers

As part of our commitment to the Social Mobility Pledge, we ran our first ever Industrial Cadets scheme, a week-long accredited work experience programme supported by the Engineering Development Trust (EDT).

The action-packed week saw 14 students aged 14 to 17 understand more about how the UK water industry works and what skills and professions are needed, as well as the numerous challenges water companies face.

The students learned how some of their school and college-based subjects, particularly science, technology, engineering and maths, are applied in our essential operations. From detecting leaks and building new strategic pipelines, to the challenges of climate change and educating customers, the students saw first-hand what goes into pumping, treating and distributing millions of litres of water every day.

The students gained a nationally accredited Silver level award by applying what they had learned to complete a project to address a real problem faced by the industry around the importance of water conservation. The last day concluded with the groups presenting their project findings to a panel of judges from the Company, as well as 'graduating' in front of their parents.

William Evans, studying at East Surrey College, said: "I wanted to take part in the week to understand about what engineering career opportunities are available. Like most people I never thought about water very much and had no idea how much work goes into getting it to people's taps. I had a great time and learned loads."

Going greener

Our Energy Strategy Committee is a sub-committee of the Board, which meets twice a year to review progress against our energy strategy. This includes ensuring that we minimise the cost of energy to ensure we offer good value and keep bills at a reasonable level, ensuring we have sufficient energy to provide a reliable supply of safe, high-quality drinking water and minimising the carbon footprint of our energy use to reduce our impact on the environment and make a positive contribution to it.

Community Foundation for Surrey

Doing more for our communities

In 2019 we launched a charitable giving fund through the Community Foundation for Surrey and have since awarded £30,000 to ten local organisations, which is expected to have benefited more than 5,000 people. The partnership forms part

Preventing plastic pollution

As part of our commitment to encourage the use of non-disposable, refillable water bottles, we have supported the nationwide Refill scheme. Last summer we opened a new water station to the public in the reception area of our Redhill head office, ready to hydrate the local residents in the town. We have also supported the opening of other water stations in towns across our area, including Dorking and Leatherhead.

Taking less water from the environment

We have set ourselves challenging targets to reduce how much water our customers use over the next few years. To achieve them, this year we trialled the 'Every Drop Counts' campaign in Tandridge, where residents in the area helped us test some innovative new technology, including smart meters, so we can better understand their capabilities before they are offered more widely.

We also went to local events with our community trailer, including Godstone Farm's 'Festival on the Farm', providing fun family activities, as well as the opportunity for people to learn about leak detection and advice on how to save water.

We also offered free water efficiency audits to local businesses, spoke to customer facing staff at Tandridge District Council and teamed up with ten Tandridge schools to deliver a new water efficiency assembly – that's an extra 2,293 pupils learning about the importance of saving water!

of our commitment to supporting worthy causes in the community and giving something back to those groups providing vital services for local people and disadvantaged individuals.

One of the groups to benefit from our funding is Surrey-based charity Delight, which delivers arts-based programmes to help children increase self-esteem and aspirations, and better engage them in learning.

We have also donated to support a local Citizens Advice centre.

"We are thrilled to have been awarded this grant that will greatly impact the lives of those with severe and enduring mental health conditions. The funding will ensure that they have access to the advice and information needed to obtain entitled benefits, manage their finances and avoid homelessness – leading to them feeling less stressed and better able to cope."

Lisa Davis, Chief Executive Officer for Citizens Advice Epsom & Ewell

Financial review

Our financial performance

Paul Kerr
Chief Financial Officer

> **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.**

Our financial performance remained healthy this year.

Operating profits increased by £0.7 million to £20.4 million (2019: £19.7 million). Interest charges decreased by 7% to £10.2 million (2019: £11.0 million). Interest receivable and similar charges were £0.4 million (2019: £0.7 million). Profit before tax increased by £1.3 million to £10.7 million (2019: £9.4 million). Our accounting tax charge for the year increased to £6.0 million (2019: £2.2 million) due to the change in tax rates enacted in March 2020.

Capital investment

The Company has continued with its five-year investment programme, with £35.6 million invested in new and replacement plant and equipment in the year (2019: £25.3 million).

We have continued to invest in the ongoing replacement of the pipes in our distribution network, investing £5.6 million this year to provide targeted replacement based on their age, condition and performance. Other investment of £6.3 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 £1.1 million in pipes to supply new developments. The remaining £22.6 million was spent in replacing equipment at our treatment works, pumping stations, service reservoirs and other operational sites (£4.3 million), investment in our ongoing metering programme (£2.6 million), and investment in IT, including replacing our billing system, vehicles, laboratory

Revenue

	2020 £000	2019 £000 Restated*
Measured water revenue (household)	**29,566**	27,225
Unmeasured water revenue (household)	**24,768**	25,098
Total water revenue (household)	**54,334**	52,323
Wholesale revenue from retailers (non-household)	**10,862**	9,682
Other water revenue	**843**	761
Non-water revenue	**1,718**	3,391
Non-appointed revenue	**2,065**	2,182
Revenue	**69,822**	68,339

Net Operating Costs

	2020 £000	2019 £000 Restated*
Wages and salaries	**10,745**	10,230
Social security costs	**1,264**	1,271
Other pension costs	**1,328**	2,633
Power	**5,712**	5,617
Raw materials and consumables	**3,400**	3,040
Depreciation/amortisation of owned assets	**10,225**	9,780
Fees payable to Company's auditor for the audit of annual accounts	**248**	126
Fees payable to Company's auditor and associates for other services		
– Audit of regulatory accounts	**75**	45
– Other assurance services	**72**	5
Other operating costs	**16,442**	17,482
Operating costs	**49,511**	50,229

* A number of restatements to 2019 and prior years have been made for corrections to developer services' revenue and costs, bad debt provision and depreciation – see Note 1 of the financial statements on page 103.

and office equipment (£6.1 million). Capital investment also includes the ongoing work on upgrading Elmer Water Treatment Works (£9.4 million) and £0.2 million to complete the upgrade of Woodmansterne Treatment Works (2019: £4.3 million) which was commissioned on 25 February 2020.

Net debt

Net debt for the Company at 31 March 2020 was £170.4 million (2019: £155.3 million). The carrying value of our £100 million index-linked bond was increased by £4.6 million due to the link to Retail Price Index (RPI) (2019: £5.2 million increase). Cash and liquid resources increased by £7.4 million in the year (2019: £1.7 million increase). The Company has also completed the extension of its five-year revolving credit facility in May 2020 to a limit of £50.0 million from £35.0 million. 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 72.3% at 31 March 2020 (2019: 66.0%), within the 80% permitted by our covenants.

Dividends

Ordinary dividends of £6.1 million (2019: £3.1 million) were paid from the Company's regulated activities. The Board applied the dividend policy as noted on page 85 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 (2019: £0.6 million) were paid from accumulated reserves and cash balance from non-regulated activities. The Board carefully considered the potential liquidity effects under the COVID-19 crisis in reaching this decision on dividends.

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 £27.4 million (2019: £16.6 million) is included in the balance sheet. 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.

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 first phase of the new price review period.

Paul Kerr
Chief Financial Officer

14 July 2020

Principal and emerging risks

Managing risk is a key activity embedded in our culture

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	9
Failure of billing system	Temporary loss of revenue – especially with transition to new billing system	– Stable billing system supported by experienced system provider – Detailed controls for any changes to system or environment, including transition to new billing system – 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 measures – 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	4
People			
Absence 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 arrangement	16

Our principal risks are provided in the table below, grouped into six categories that consider financial and reputational impacts. Key emerging risks are also shown, which have the potential to increase in significance and affect our performance. We continually monitor all of our risks and a formal register ranks them and keeps track of mitigations. Refer to page 47 for a review of COVID-19 related risks.

Impact

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

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 Silver recognition – Regular appraisals and staff recognition schemes – Commitment to staff training and development – Employee engagement surveys and forums	9
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 whistle-blowing 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 – Focus on adherence to service level agreements with associated non-regulated companies – Accredited Environmental Management System – Health and safety training	9
Failure of economic regulation	Insufficient funding for Company to fulfil its duties and ensure regulatory mechanisms address COVID-19 related issues	– Stable and transparent regulatory regime – Detailed business planning process, including customer consultation – Strong regulatory focus for management – Effective relationship with regulator – Ensure current regulatory mechanisms manage impact of COVID-19 – 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, such as interest cover ratios	– 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’ and actions to ensure adherence with Ofwat’s recent Board Governance objectives as detailed in this Annual Report	9
Cash collection rates	Loss of revenue if customers are unable to pay, reducing liquidity with the potential to increase reliance on debt	– Affordability testing of future prices – Variety of payment options offered – Discounts available for genuine financial difficulties (including a Water Support Scheme) – Regular reviews of cash collection and debtor rates	12

Managing risks

We carry out ongoing work to mitigate the risks we face. Here we put the spotlight on some of our key risks and how we manage them.

Principal and emerging risks are continually monitored through our enterprise risk management processes. A formal register records and ranks risks according to the likelihood of occurrence and magnitude of impact and it also keeps track of mitigating actions. The Audit Committee reviews the register twice a year and reports back to the Board on the status and mitigating actions that are being taken. As the Audit Committee assesses whether the Company is adequately prepared for the potential opportunities and threats presented by such risks, the process also enables new and changing risks to be identified at an early stage so they can be analysed thoroughly and the potential exposure assessed.

Emerging risks are monitored closely and, with time, may become fully fledged principal risks or be incorporated into existing principal risks. Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environments in which we operate evolve. This list of emerging risks is non-exhaustive and some of these risks are also described in other sections of this report.

Risk

Cyber attack

What is the risk?

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

What does it mean for us?

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

What are we doing to manage the risk?

We have boosted the security of our email system, which is the area most at risk of cyber threat. This has included enhanced anti-malware protection and special tools to help users manage blocked and permitted senders. This has included improving impersonation protection as sending an email pretending to be a senior employee is a common method that hackers use to infiltrate organisations.

Many of our workforce are not always office based and will often be working outside the company network, accessing the internet via roaming or a public portal. We have increased the level of protection so that full web filtering and security scanning is provided seamlessly, wherever they are.

We are rolling out the next generation of anti-virus protection across all our users. This includes three layers of security so that even the most sophisticated threats can be detected in near real-time. Because this is a cloud-based system it also reduces the impact on the performance of the device, making it better for the end user. Staff awareness is critical, and we run simulated phishing attacks on our users every few weeks to help our employees identify even the most sophisticated attacks and ensure they know what to do if they think they have been targeted. We also run regular awareness campaigns and all staff are provided with cyber security training.

We use third party security professionals who mimic the techniques used by cyber criminals to carry out controlled hacking on our network. They identify and test any weaknesses that criminals could exploit so that we can address them and reduce the risk of attack. We also block any emails that come from 'hostile nations' that would have no business in dealing with a UK water company.

The issue of cyber security is regularly discussed at both the Board and Audit Committee.

Risk after mitigating action	15
Movement in risk level since July 2019 =	—

Risk

Water supply failure

What is the risk?

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

What does it mean for us?

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

What are we doing to manage the risk?

We have invested over the last ten years to improve the connectivity of our pipe network so that 56% of customers can now be served by more than one treatment works. This means we can re-route water more easily during an emergency and keep customers in supply. Over the next five years we'll continue this work so that we will be able to supply all our customers from more than one treatment works by 2025.

We have carried out work to protect our key assets from flooding, which is a potential cause of supply failure, and have standby power generation capability at our treatment sites to mitigate the risk of failure during a power outage. We have 24-hour standby arrangements in place and we regularly test our incident management procedures. This includes being able to provide bottled water to affected communities and using our Priority Services Register to identify vulnerable customers who need extra support. We work closely with local resilience forums and our neighbouring water companies which would provide mutual aid support if needed.

Longer term, we are investing in new technology that will alert us to problems on our network earlier so that we are able to address them more quickly, reducing the risk of a major supply failure occurring

Risk after mitigating action 9

Movement in risk level since July 2019 = —

Managing risks Continued

Risk
Disruption to water supplies during a drought
What is the risk?
That we experience a period of drought which results in less water being available for us to supply our customers.
What does it mean for us?
We would follow our Drought Plan to ensure we manage the situation effectively and keep our customers in supply. This would mean us taking actions such as introducing temporary water use restrictions to reduce demand that would be scaled up as the situation became more serious; changing how we operate our sources and using environmental drought permits and orders to make more water available.
What are we doing to manage the risk?
We develop a Water Resources Management Plan every five years. Our most recent plan looks 60 years ahead and identifies how much additional water we'll need in the future and where it should come from. We have changed our planning scenarios so we now plan to avoid the use of severe restrictions, such as rationing water supplies and rota cuts, during a one in 200-year drought. This has led to us increasing our focus on reducing demand and using the water we have more efficiently. We've been steadily increasing the number of metered properties so now around 60% of homes are metered. Over the next five years we will increase this to over 90% and we will put smart meters into at least 10% of homes to help customers reduce how much they use. Supporting this is our ongoing water efficiency and education programme which is focused on delivering long term behaviour change. This is stepped up during the summer months when we see higher demand for water and if we start to see low levels of rainfall that could lead to a drought. Alongside this is our activity to reduce leakage. We have consistently met our leakage target every year since they have been set but by 2025 we will reduce it by a further 15% to increase the resilience of our service. Our investment in the connectivity of our network means we can use our water sources more flexibly and rest certain sources that take longer to recharge to help preserve supplies for longer.

Risk after mitigating action	6
Movement in risk level since July 2019 =	–

Emerging risks

Sustainability
We fail to adapt early enough to sustainability challenges, such as those indicated through Water UK's Public Interest Commitment, particularly in dealing with our stretching environmental and climate-related targets.

Regulatory
We do not adapt quickly to potential changes to the UK regulatory environment in light of PR24 and wider strategic changes from our economic regulator.

Inappropriate action by employees
Our reputation and success are dependent on the quality and the behaviour of our people.
We are committed to high ethical standards, upholding our values and being a good corporate citizen.
We encourage all employees to speak up if they feel that something is wrong or are concerned that these principles are not being upheld in any way. One of the ways we offer to do this is through our dedicated whistle-blowing hotline service and this is communicated to employees through the Staff Handbook and reiterated in our Code of conduct and Business Ethics.

COVID-19 risks

The pandemic has impacted on SES Water and the rest of the water industry in a number of ways.

Although it only affected the final month of the 2019/20 reporting year, in the following section we highlight the impact it has had on our business, the risk management approach we have taken to manage the situation and the remaining uncertainties that we face over the coming year.

COVID-19 has caused a number of the risks identified on our risk register to either become a reality or increase in likelihood. This includes:

Staff absence

A few of our employees have been unable to work due to illness or self-isolation and we have had to change the way in which our field and office-based teams work to abide with the Government's lockdown and social distancing requirements to protect public health. Our priority has been to maintain a high-quality service to our customers, which has meant that we have not been able to carry out all business operations as we normally would and have instead had to prioritise essential areas.

Cash collection rates

We have experienced a reduction in revenue due to some household customers being unable to afford their water bills and retailers not being able to pay wholesale charges as so many businesses have been impacted.

Penalties from non-delivery of our 2020/21 Business Plan targets

In order to protect the health of our employees and customers we had to prioritise emergency work and only enter customers' properties when absolutely necessary. It led to us temporarily stopping work on some of our capital investment programme, reducing our proactive leak detection activity and stopping non-essential activity such as our water efficiency home visits and meter reading. This could impact on our ability to meet some of our Business Plan targets at the end of this year which could result in us receiving a financial penalty.

What are we doing to manage the risk?

We put in place our robust Business Continuity Plan, that we test regularly, to ensure our core activities keep running effectively. This progresses through key stages, from planning in February, demobilisation in March, through to stabilisation of our operations, delivery of our core service and finally, reviewing our response.

The health and safety of our employees and customers has been our top priority throughout and there are a number of mitigating actions that we have taken and continue to take to manage the impact on our customers and employees and abide by the latest government advice.

We have remote IT systems in place, so all office-based staff have been able to continue working and we have practised social distancing for those employees in the field and at our treatment works.

The UK water companies work collaboratively through a number of groups and networks which means that we were able to quickly form an industry Platinum Incident Management Group which, with Water UK, has led on liaison with the Government and regulators on key issues. This has included ensuring that water company employees are considered key workers and that priority is given to maintaining chemical supplies for water treatment.

We have offered our customers a three month payment holiday if they are struggling to pay their water bill, after which they will receive our Water Support Scheme that discounts bills by 50%. This is helping households manage during this difficult time by making bills more affordable while maintaining cash flow into the business, albeit at a lower level than normal.

We have also worked with MOSL, the retail market regulator, to manage the financial impact on retailers.

While we continue to adapt and meet the challenges presented by COVID-19, longer-term risks are emerging from this pandemic, including the resilience of our supply chain, impact on revenues, stepping up activity to get back on track with our performance commitments and impacts on long-term financial resilience.

Introduction to governance

Good governance is essential to strategic delivery

Jeremy Pelczer
Chairman

Q – What role does the Board have in shaping the culture of the business?

As a small, local company we are, by our nature, collaborative and agile and our employees, many of whom are also customers, are committed, accountable and know the importance of the role they play. The role of the Board is to cultivate this and provide an environment in which our strong culture can help deliver strong performance and transformation.

No one knows this Company better than our employees so their input into our decision-making is critical in delivering more for our customers. We have designated one of our independent non-executive directors – Dave Shemmans – to be responsible for engagement with our employees.

Q – Do you consider the Board has the right skills, experience and behaviours?

Our three non-executive directors have very different backgrounds – finance, engineering and customer experience – all of which are extremely relevant and very much complement the skills of our executive team. Our Nomination Committee is responsible for the orderly succession of the Board and this year the focus has been on recruiting a new Chief Executive Officer and ensuring a smooth handover with our outgoing Managing Director Anthony Ferrar. Ian Cain brings an ever-greater focus on customer experience to the Board which will be critical to us achieving our vision to deliver service excellence.

Q – How has the Board responded to Ofwat's new principles of Board leadership, transparency and governance?

We are supportive of Ofwat's renewed focus on this area and have always taken a proactive approach. To enhance this further we were one of the first companies to publish a customer-friendly guide to how we are owned, run and financed called 'Keeping it clear' – something that Ofwat highlighted as good practice in its January 2020 progress report, along with our decision to publish minutes of our Board meetings on the Company website. We will also continue to publish the recommendations of our Board effectiveness review in 2019 and how we are acting on them.

More recently we have updated our dividend and executive pay policies so that decisions on payments are linked directly to performance for customers. This will be clearly explained each year in our Annual Report.

We have also focused on the Board's role in developing and reviewing the Company's purpose, and ensuring this purpose is embedded in all the directors' interactions with the Company's employees and wider stakeholders. There is further information on this in the annual statement on page 116.

Q – What is the Board's approach to stakeholder engagement?

Water is essential in all our lives and we can't successfully deliver excellent service without understanding the needs of others. To ensure that the priorities of our stakeholders were put at the heart of our Business Plan for 2020 to 2025, the Board nominated one of the non-executive directors to oversee the Company's insight programme and provide assurance that its outputs were reflected in our plan. This was in addition to the scrutiny and challenge provided by our independent Customer Scrutiny Panel (CSP) which the Board met with directly on a number of occasions.

Our focus on stakeholder engagement, however, goes beyond the price review. We regularly invite representatives from our regulators and consumer organisations to join Board meetings and we actively participate in a range of industry events. We have established a new independent Environmental Scrutiny Panel (ESP) which will focus on our work in this area. Furthermore, we are introducing a 'Voice of the Customer' programme to provide ongoing insight to help inform our decision-making.

Q – What were the findings of the Board evaluation review last year?

It highlighted positive aspects including clear division and understanding of Board member roles and responsibilities and a proactive approach to succession planning. Recommendations on how we could operate more effectively included spending more time focused on our long-term strategy, risk management, people and culture. We will also invite a greater mix of people, with different experience and backgrounds, to contribute to Board discussions to increase diversity of thinking. Continuing to have a greater understanding of the role of technology and its future opportunities is critical and we will also conduct more regular analysis of our competitors inside and outside the industry.

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

Requirement	Summary	Where to find further information
Board leadership and Company purpose	The role of the Board is to provide leadership and to review the overall strategic development of the Company. The purpose of the Company is to supply our customers with the highest-quality water all day, every day in a reliable and safe way, and to do so in a manner that reflects our long-term commitment to serve our local community and environment. As a Board we strive to ensure that the Company's purpose is embedded in every decision that we make, as well as the decisions and actions of employees.	Read more on pages 50/51 and 116
Division of responsibilities	The division of responsibilities across the Board is a key factor in the ability of the Board to function effectively and efficiently throughout the year. Clarity of such roles and responsibilities, and ensuring the specific duties for Board members are defined, and such members are held accountable in their responsibility areas, is of prime importance to the Board. In particular, the Board ensures that there is clear division of responsibilities between the Chairman and Chief Executive Officer, and the roles of the Chief Financial Officer & Company Secretary, together with the senior independent non-executive director, are well defined.	Read more on page 57
Composition, succession and evaluation	The Board will only function effectively if it can benefit from the varied skills and experience of its independent non-executive directors and Chairman. In addition, through the Nomination Committee, the Board has a thorough and considered approach to succession planning within the organisation, both at Board and senior management levels. Also, it is vital to continuous improvement that the Board members are evaluated on an annual basis, and that the overall effectiveness of the Board is also regularly evaluated.	Read more on pages 58 and 60
Audit, risk and internal control	The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. This is vital for the proper functioning of the Company, as this allows the management of the risk of failure of the Company's business objectives. Such a system ensures that the Company has in place effective control environment, risk management and information systems, clearly defined control procedures and a regularly reviewed monitoring system.	Read more on pages 61 and 62
Remuneration	The Remuneration Committee of the Board is key for providing a remuneration framework for the Board members and senior management team, including the design of targets on bonus and long-term incentive plans, and their ongoing evaluation. In particular, the Committee has focused on an updated executive remuneration policy recently, strengthening the link between executive pay and delivery for customers, in both the areas of annual bonus and long-term incentive plans.	Read more on page 67

Compliance statement

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

- Board composition: Provision 11 of the Code states that at least half the Board excluding the chair, be independent non-executive directors. We have three independent non-executive directors and comply with the Ofwat objective in this area, as explained on page 120
- Chair's independence: Provision 9 of the Code states that the chair should be independent at the time of appointment. The circumstances around the appointment of the chair are explained on page 54, along with the succession plan that will be implemented at the end of his third three-year term on the board
- Board evaluation: Provision 21 of the Code states that there should be an annual evaluation of the performance of the Board. As explained on page 60 there was a Board evaluation process during the 2018/19 financial year but this is carried out only every second year, which is appropriate for a company of our size
- Provision 38 of the Code states that the pension contribution rates for executive directors should be aligned with those available to the workforce. The policy for incumbent directors and any new appointments is set out on page 71 in the remuneration report

Board directors

The leadership team

Chairman

Jeremy Pelczer
Chairman, non-executive

Committee membership:

- Chairman of Nomination Committee
- Member of Audit Committee

Skills and experience:

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

Current external appointments:

Jeremy is the Chairman of East Surrey Holdings Ltd and of Agua Via Ltd and a director of Landara Ltd and G20 Water Technologies Ltd.

Executive directors

Ian Cain
Chief Executive Officer

Committee membership:

- Member of Nomination Committee

Skills and experience:

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

Current external appointments:

Ian is a director of East Surrey Holdings Ltd and a number of associated companies.

Paul Kerr
Chief Financial Officer and Company Secretary

Committee membership:

Skills and experience:

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

Current external appointments:

Paul is a director of East Surrey Holdings Ltd and a number of associated companies.

Independent non-executive directors

Murray Legg
Senior non-executive director

Committee membership:

- Chairman of Audit Committee
- Member of Remuneration Committee
- Member of Nomination Committee

Skills and experience:

Murray is a chartered accountant who spent 35 years with PwC in the UK where he held a variety of senior management, governance and client roles. As a partner, he spent 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. He joined the Board on 1 October 2015.

Current external appointments:

Murray is also a non-executive director of GlobalData plc and chairs its Audit Committee.

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

Dave Shemmans
Non-executive director

Committee membership:

- Chairman of Remuneration Committee
- Member of Audit Committee
- Member of Nomination Committee

Skills and experience:

Dave joined Ricardo, a global engineering consultancy, in 1999. Prior to joining Ricardo he was operations director and co-founder of Wavedriver 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. He joined the Board on 1 September 2014.

Current external appointments:

Dave is the Chief Executive Officer of Ricardo plc and a director of a number of its associated companies.

Jon Woods
Non-executive director

Committee membership:

- Member of Audit Committee
- Member of Remuneration Committee
- Member of Nomination Committee

Skills and experience:

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

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.

Shareholder -nominated non-executive directors

Seiji Kitajima
Non-executive director

Committee membership:

Skills and experience:

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

Current external appointments:

Seiji is the General Manager of Sumitomo Europe's Infrastructure Business Unit.

Kenji Oida
Non-executive director

Committee membership:

Skills and experience:

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

Current external appointments:

Kenji is the Managing Director of Osaka Gas UK based in London.

Corporate governance report

Statement by the Chairman on corporate governance

Corporate governance is the system by which companies are directed and controlled.

Statement

We have spent considerable time as a Board this year focusing on the Company's PR19 Business Plan submissions, including reviews of the Company's responses to Ofwat's draft and final determinations on our plan. In reaching our decision to accept Ofwat's final determination, the Board spent significant time debating and challenging the four key themes of customer service, affordability, resilience and innovation, and used 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. Both the Board and management are now focused on delivery of our commitments in our Business Plan, taking into account of course the challenges presented by the COVID-19 pandemic.

The Board has also addressed the requirements of Ofwat's 2019 objectives on leadership, transparency and governance.

Such objectives are now incorporated into our licence and the Board considers that we have complied with all such objectives as detailed in the annual statement provided on pages 118 to 121 of this report.

The Board has taken these leadership objectives introduced by our regulator very seriously, and has 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.

The Governance Committee established by the Board last year continues to operate well, taking into account all guidance from Ofwat and the Financial Reporting Council (FRC). I am pleased to note that the Committee has again worked with management on the publication of the 'Keeping it Clear' document published in December 2019, which provides a clear and straightforward view on how the Company is financed and governed, together with clear insights on dividends and executive pay. Board minutes continue to be published on our website.

We are constantly trying to be diligent with respect to data reporting, given recent issues elsewhere in the sector. As a Board and Company, we cannot be complacent, and took immediate action in the year to avoid any breaches of our regulatory and legal duties and assure ourselves that we have the appropriate policies, procedures and governance in place.

In addition, the Board has focused in the current year on explaining further its engagement with various stakeholders, in particular its workforce. One of our independent non-executive directors, Dave Shemmans, has been designated as the Board representative for the workforce, and I am pleased that he has already engaged directly with a variety of the Company's employees and provided excellent insights to the Board in this respect.

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

14 July 2020

Board overview

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

Governance framework and compliance

Our governance framework, which is shaped by the 2018 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.

Board of Directors

Audit Committee

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

Murray Legg
Chairman

Read more on page 50

Remuneration Committee

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

Dave Shemmans
Chairman

Read more on page 51

Nomination Committee

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.

Jeremy Pelczer
Chairman

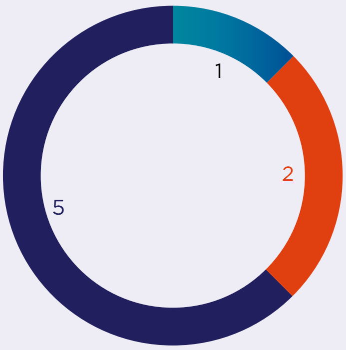
Read more on page 50

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

Key responsibilities

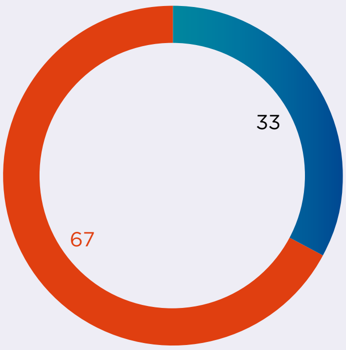
Chairman	Chief Executive Officer	Chief Financial Officer and Company secretary	Non-executive directors
– Operation and effectiveness of the Board – Ensuring effective contributions from all Board members – Disseminating accurate and timely information	– Strategic planning – Performance of the Company – 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

Board composition



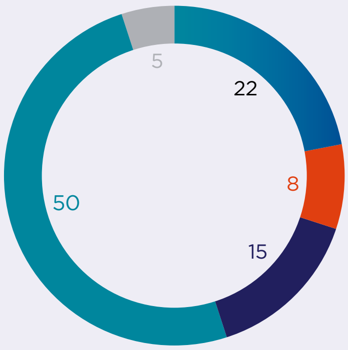
- Chairman
- Executive directors
- Non-executive directors (including three independents)

Non-executive director tenure (%)



- Less than three years
- Over three years

How the Board spent its time (%)



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

Corporate governance report Continued

The Board's Code on principles of good governance

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

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

1. Acting as if it is a separate plc

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

The Board considers 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) 2019 objectives, together with updates to the Code and related guidance from the FRC. Final decisions affecting the Company have continued to be made by the Board.

2. Transparency

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

The Company has made disclosures in this Annual Report which meet the relevant requirements of the Code. The terms of reference of its Board committees are published on the Company's website. The relationship of the Company with its associated companies is set out on page 11.

3. Board and senior management skills

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

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

All new directors receive appropriate induction. The Board formally reviews its performance every two years, and in prior year utilised an external facilitator to enable this review. The progress on the actions arising from the most recent Board effectiveness review in 2019 is provided on page 60.

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

4. Independent representation

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

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

The Board was conscious that the overlap between the appointment of Ian Cain (on 12 February 2020) and the retirement of Anthony Ferrar (on 29 February 2020) resulted in, temporarily, the independent non-executive directors not being the majority group on the Board for this short period of time. However, given the benefits which accrued during this handover period in terms of knowledge sharing between Ian and Anthony, the continued oversight of decision-making by the Board and Chairman and the short period of time involved, the Board did not believe this overlap resulted in any governance concerns. During this period no Board meetings were held and no decisions of significance taken. Timely notification of this matter, together with the Board's views as noted above, was made to Ofwat.

5. Board committees
The Board will maintain as a minimum Nomination, Audit and Remuneration Committees on which independent non-executive directors will form a majority, and also has Energy, Pensions, Governance and Financing Committees which have independent non-executive director attendance and chairs.

The Company's ultimate holding company in the UK also applies a code on governance which is published on page 64.

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

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

The Board has been heavily involved in the current year in ensuring that the Company adheres to the 2019 BLTG objectives from Ofwat. This includes building on the substantial work performed in previous years to enhance the internal and external transparency of Board matters and key decisions throughout the organisation, and takes into account the recent January 2020 report from Ofwat in this area. The Board's assessment of performance against these objectives is provided on page 118.

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, including:

- 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 geographical areas
- Any decision to cease to operate all or any material part of the Company's business

Structure and capital, including:

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

Financial reporting and controls, including:

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

Maintenance of a sound system of internal controls and risk management, including:

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

Corporate governance report Continued

Approval of significant projects and contracts above agreed levels, including:

- Major capital projects (above the levels of authorisation delegated to management)
- Contracts which are material strategically or by reason of size, entered into by the Company in the ordinary course of business, including new 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, including:

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

Remuneration, including:

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

Delegation of authority, including Board committees and division of responsibilities between the Chairman and the Chief Executive Officer:

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

Corporate governance matters, including:

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

Approval of policies, including:

- Code of Conduct and 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, involving above £1 million or being otherwise material to the interests of the Company
- Approval of the overall levels of insurance for the Company including directors' 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 full control of both business performance and strategy.

No matters are reserved solely for the shareholders, and none of the matters above are reserved to any intermediate holding company. Any matters which are properly of concern for shareholders are openly discussed with the Chairman of the Board and the full Board. In 2019/20, this has included shareholders' views on the Draft and Final Determinations from Ofwat.

Diversity policy

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

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

We support the principle of equal opportunities and fair pay in employment and believe that it is in the Company's and employees' best interests to develop, train and nurture all people, talent and skills available when new opportunities arise and throughout employment. The Board has implemented this policy through its work through the Nomination Committee and wider reviews with management on the Company's people strategy throughout the year. The Board considers that the Company adheres to this diversity policy, although it is cognisant that recent Board appointments do not address the current lack of diversity in such forums, and the Nomination Committee will continue to focus on this imbalance when considering future candidates.

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

Roles and responsibilities

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

Chairman – Jeremy Pelczer is responsible for:

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

Chief Executive Officer – Ian Cain is responsible for:

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

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

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

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

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

Corporate governance report Continued

Composition of the Board

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

With respect to Board succession, during the year the Board approved Dave Shemmans to serve a third and final three-year term effective from 31 August 2020 as an independent non-executive director of the Board.

The Board also approved the appointment of Kenji Oida as one of the Company's shareholder-nominated non-executive directors, replacing Ryu Nishida effective from 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.

Finally, the Board approved the appointment of Ian Cain as Chief Executive Officer, after the retirement of his predecessor, Anthony Ferrar, in February 2020. The Board is very pleased with the appointment of Ian, who brings a considerable level of experience to the Company, given his previous work in the water and utility industry, with a real focus on customer experience, innovation and operational delivery, which will stand the Company in good stead for the future. Ian's appointment followed a rigorous process co-ordinated by an external executive search firm with extensive due diligence by the Chairman and senior independent non-executive director on behalf of the Board.

Together with the Nomination Committee, the Board considered the above appointments in the light of the current lack of diversity on the Company's Board and committees. The Board is cognisant that such appointments do not address the current lack of diversity in such forums, and will continue to focus on this imbalance when considering future candidates, as it will do when considering the replacement of Jeremy Pelczer as Board Chair in March 2022.

The above confirmations and appointments will bring a level of stability to the Board in the coming years, especially in the light of the effects of the COVID-19 pandemic, for which strong and effective leadership will be required of the Board and executive directors.

The Company has a policy that a register of directors' interests is maintained and updated on a continuous basis by the Company Secretary. This register is presented and reviewed at the start of each Board meeting to ensure that any conflicts of interest are readily identified and addressed. The proactive consideration of this register and the emphasis placed by the Board Chairman on the accuracy and consideration by all Board members of their external interests, means that any potential conflicts can be addressed in advance if needed. In 2019/20, no such conflicts of interest were identified.

Independent non-executive directors

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

Significant commitments of the directors held outside of the Company are disclosed prior to appointment and any changes are disclosed over the duration of the appointment. Current appointments are disclosed on page 50 and 51. 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 review of Board effectiveness.

The Chairman is not listed as independent as he was nominated by Sumitomo Corporation on its 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 in March 2022, a Chairman will be appointed who is independent upon date of appointment, in accordance with the Code and Ofwat's underlying provisions to its 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.

Statement of the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006

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

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

How does the Board engage with stakeholders?

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

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

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

Engagement in action – our Business Plan for 2020 to 2025

There have been various examples of this level of engagement with our stakeholders throughout the year by the Board, including participation in site visits with employees, engagement with industry and regulator representatives (such as Ofwat, Drinking Water Inspectorate and Consumer Council for Water) at Board meetings, and the participation by our non-executives at industry forums.

However, the best example of such engagement (in a manner that was wholly consistent with the Companies Act 2006 requirements) was the work performed by the Board in relation to approval of our Business Plan for 2020 to 2025 and subsequent Final Determination by Ofwat.

The Board was directly involved in ensuring that the following matters were taken into account when constructing and now delivering this Business Plan:

- That the plan was designed to have long-term beneficial impact to the Company, our customers and other stakeholders, ensuring that all efforts were made to strike the right balance between short-term affordability for customers in terms of bill levels versus investment for long-term resilience purposes
- That our employees were engaged in the business planning process, being involved in the construction of the plan through detailed engagement on technical matters, to broader updates via regular director roundtable sessions with staff. In all over 30 roundtable sessions were arranged, each attended by around 15 employees per session and overall all employees were able to attend
- That our plan was built on substantial engagement with our customers, which ensured that views, priorities and focus areas for customers were listened to and understood, and built into the plan. The independent Customer Scrutiny Panel (CSP) was also committed to ensuring our plan was customer-focused. See pages 32 and 33 for further detail of its work
- Our plan took into account the impact of the Company's operations on the community and the environment, with specific goals such as enhancing local education programmes in the community and targeting certain biodiversity goals across our service area.

As the Board of Directors, our intention is to behave responsibly and ensure that management operates the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so will contribute to the delivery of the plan.

As a Board of Directors, our intention is to behave responsibly towards our shareholders and treat them fairly and equally and so they too can benefit from the successful delivery of our plan.

Engagement in action – our workforce

Our executive directors have significant daily interaction with our workforce from the nature of their roles in the Company. However, the non-executive directors also regularly engage directly with our employees, via visits to our treatment sites and regular presentations at our Board meetings from members of the workforce.

In 2019/20, one of our independent non-executive directors, Dave Shemmans, was designated by the Board to be the workforce representative from the Board. In this role, Dave attends at least one meeting per year with our employee representative forum, the Joint Negotiating and Consultative Committee (JNCC), in addition to his other regular interactions with the workforce (including site visits to Woodmansterne Treatment Works as part of his oversight role of capital investment projects).

Corporate governance report Continued

From the JNCC discussions (including several follow-up communications), Dave has been able to provide the Board with a view – separate from executive management – of the culture of the business and workforce, the areas of concern that management is working to address, and the successes and morale of the workforce during the year. His work has allowed all the Board to ensure that due regard has been given to employee interests on the key decisions during the year by the Board. Such decisions have ranged from the approval of the new two-year pay deal for the workforce to ensuring that management enhances the Company's recruitment policies and procedures in the year following input from the JNCC. While certain aspects of these decisions may not be materially strategic to the Company, the use of a workforce designated non-executive director has enhanced the understanding and decision-making of the Board on employee matters.

Evaluation of Board performance

The most recent review of Board effectiveness was facilitated externally last year 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 and 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 it to the Board. This report reflected the key feedback themes and included suggested actions for consideration by the Board, which are documented to the right. Independent Audit limited has no other connection with SES Water.

All actions from previous Board effectiveness reviews have been completed as documented in the 2018/19 Annual Report.

No changes were made to the terms of reference of the Board's formal committees, which the Board considered were operating effectively. The latest version of all committees' terms of reference are available on our 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 2019/20 to conduct regular Board business, in addition to three times for separate Board meetings to review and approve responses associated with Ofwat's Draft and Final Determinations. Committees met as required and considered regular and ad-hoc business. Attendance at meetings by directors is summarised on page 61.

The Board has also established ad-hoc committees to consider key risk items, including the strategy for power purchases (an Energy Strategy Committee), for managing the Company's exposure to risks associated with the defined benefit pension scheme (a Pensions Risk Management Committee) and for considering the way in which the Company should be financed in the future (a Financing Committee). In addition, a Governance Committee was established in the prior year to consider both recent requirements

Board effectiveness review action points	Board response
Continued focus on spending more time discussing strategy, particularly 'big picture' issues, including opportunities and risks associated with new technology	The Board has re-focused its strategic discussions based on this feedback, with additional time and focus now being dedicated to strategy. This is being led by Ian Cain, as the new Chief Executive Officer, with the support of the shareholders.
Further focus on risk deep-dives, particularly on how different risks across the Company are connected	Internal audit arrangements are now a standing item on the Audit Committee agenda, in terms of both actions arising from recent reviews and future audit plans.
Greater focus by the Audit Committee on internal audit arrangements and external auditor performance	Further risk deep-dives have been completed by the Board in the year, such as a review of Drinking Water Management Plans directly with the Board. A separate review of PwC's performance, as external financial auditor, is planned for August 2020.
Possible use of external advisors for the Remuneration Committee and further focus on executive succession planning for the Nomination Committee	The Board continues to consider the right time to utilise external advisors for the Remuneration Committee. Separate succession plans are discussed regularly with the Nomination Committee.

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Jeremy Pelczer	9/9	n/a	n/a	8/8
Murray Legg	9/9	4/4	3/3	8/8
Dave Shemmans	9/9	4/4	3/3	7/8
Jon Woods	7/9	3/4	3/3	7/8
Kenji Oida[1]	5/5	n/a	n/a	n/a
Seiji Kitajima	9/9	n/a	n/a	n/a
Anthony Ferrar	8/9	n/a	n/a	7/8
Ian Cain[2]	2/2	n/a	n/a	1/1
Paul Kerr	9/9	n/a	n/a	n/a

1 Kenji Oida replaced Ryu Nishida in May 2019.

2 Ian Cain replaced Anthony Ferrar in February 2020.

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 are appropriate for the matters to be considered.

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

System of internal control

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

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

- There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company
- The systems have been in place for 2019/20 and up to the date of approval of the Annual Report and accounts
- The systems are regularly reviewed by the Board
- The systems meet the FRC 2014 guidance on these matters

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

1. Control environment

The directors have put in place an organisational structure with clearly defined lines of responsibility 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. Significant work has been performed in the last year, via the Audit Committee, to review and enhance various key Company policies in this area.

2. Risk management

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

An overview of key business risks and the mitigations the Company has established are presented on pages 42 to 47.

3. Information systems

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

4. Control procedures

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

5. Monitoring system

The Company's internal financial, operational and compliance control systems have been reviewed in the context of evolving legal and regulatory requirements and additional assurance procedures have been agreed and implemented. The Company consulted on a draft targeted assurance plan for 2019/20 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

Corporate governance report Continued

a separate internal audit function continues not to be needed at the present time. The monitoring and control arrangements operated in the year are considered good based on the internal assurance received from the above audit programme, with only minor potential enhancements identified. The external auditor has been informed of the Company's internal audit programme and tailored its external audit work as needed.

Taxation strategy

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

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

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

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

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

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

The Company's effective cash tax rate on reported profits will vary from year to year – and from the standard rate of UK corporation tax – due to the availability of tax deductions for capital investment and pension contributions. These deductions arise from the tax incentives for capital investment and employee retirement provisions that have been maintained by the Government explicitly to encourage such investment. The Company considers that utilising such incentives is entirely consistent with being a well-run and respected business.

Tax risks are encompassed within the Company's general risk management framework (described on pages 42 and 43). In any particular year the principal tax risks arise from changes in legislation or the interpretation of taxation law in practice, leading to higher taxation liabilities than have been allowed for in prices charged to customers.

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

Fair, balanced and understandable assessment

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

Going concern

The Company's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic report on pages 8 and 9.

The financial position of the Company is set out on pages 40 and 41. Note 17 to the financial statements on page 112 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 included consideration of the agreed extension of the amounts available under the Company's committed revolving credit facility from £35 million to £50 million in May 2020 at market rates. No repayments of the Company's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential effects of COVID-19 on reduced income and cash in the household and non-household markets. These scenarios of reduced income and cash due to lower revenues and cash collection in the market, given the potential effect of COVID-19 on customers' ability to pay, were assessed against the long-dated bond financial covenants, which showed that such covenants were not breached as a result of the downside scenarios. If required, the Company has a number of mitigating actions to deal with liquidity issues, including re-scoping and deferral of capital projects.

Long-term viability statement

The directors have assessed the viability of the Company to March 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 acceptance of Ofwat's Final Determination in February 2020).

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

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

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

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

Failure of our AMP 7 efficiency programme:
- The expected financial efficiencies to be gained through technology and new ways of working are not achieved and as such activities do not yield the overall financial savings expected.
- Regulatory and performance penalties are incurred as a result.
- Additional expenditure is incurred when compared to forecast amounts to manage daily activities.

Risk with respect to our bond sinking fund requirement:
- Additional costs are needed to manage the sinking fund requirement associated with our long-dated bond, including early settlement of this requirement of the bond.
- Additional expenditure is incurred when compared to forecast amounts to manage this long-dated bond requirement.

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

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

In addition, the directors also separately stress-tested the Company's ability to withstand the impact of recent COVID-19 related matters as detailed in the Company's Going Concern statement.

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

Corporate governance report Continued

The assessment criterion the directors have used for testing the potential financial impact of the documented Ofwat and Company specific 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, which publish their own assessments of the Company's credit strength. Annual compliance with financial covenants is subject to external assurance and certificates of compliance with the broader covenants of the £100 million index-linked bond are issued annually to the independent Controlling Finance Party.

The underlying assumptions within this long-term viability statement are consistent with those assumptions utilised in our PR19 Business Plan and Ofwat's Final Determination. Such assumptions, together with data input, were subject to our well-established internal procedures for managing data quality and assurance. In addition, we used a range of suitably qualified external assurance providers to give additional comfort to the data and underlying assumptions which were incorporated into our business plan, and hence this long-term viability statement. 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 criterion, we remain financially resilient (and have sufficient headroom to raise additional debt within our covenants) to address all scenarios with the exception of the extreme scenarios (combined scenarios and 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 we are able to continue financing and providing services to customers. The directors have also drawn comfort from the longer-term protections which exist under the regulatory regime which enables companies to seek to re-open price determinations in circumstances having a substantial adverse effect upon a Company's ability to continue financing its functions and which places a duty 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 'governance 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 governance code 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 structure. 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 governance code to ensure that it meets the standards of current best practice. Any changes to this governance code shall be reported in the succeeding Annual Report of the regulated company.

Approved by the Board of Directors on 3 July 2020.

Nomination Committee report

Statement from the Chairman

A summary of the Committee's activities in the 2019/20 reporting year.

Jeremy Pelczer
Chairman

Members and attendance:	
Jeremy Pelczer, Chairman	**8/8**
Dave Shemmans	**7/8**
Murray Legg	**8/8**
Jon Woods	**7/8**
Anthony Ferrar (resigned on 29 February 2020)	**7/8**
Ian Cain (appointed on 12 February 2020)	**1/1**

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

Responsibilities:

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

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

Statement

While Board membership has undergone certain changes in 2019/20, most notably with the appointment of Ian Cain as the Company's new Chief Executive Officer, the Nomination Committee has remained focused on succession planning and ensuring the continued development of talent and effective senior management across the business. This is particularly relevant in light of the COVID-19 pandemic where, amongst the various customer, employee, operational and financial priorities to be addressed, ensuring strong and effective leadership by the Board, executive directors and senior management is a key focal point for the Committee.

The Committee is pleased to note the appointment of Kenji Oida as one of the Company's shareholder-nominated non-executive directors, replacing Ryu Nishida effective from 1 May 2019. Kenji brings with him a wealth of experience in the energy and utility markets, having been with Osaka Gas Corporation since 1988.

In addition, as part of a forward-looking succession plan, the Committee is pleased to note that Dave Shemmans will be reappointed as an independent non-executive director for a third and final term effective from 31 August 2020.

Finally, the Committee is delighted to note the appointment of Ian Cain, after the retirement of his predecessor, Anthony Ferrar, in February 2020. I sincerely thank Anthony for his 11 years of leadership.

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

Jeremy Pelczer
Chairman of the Nomination Committee

14 July 2020

Nomination Committee report Continued

Activities of the Committee

The Nomination Committee met eight 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 approved and recommended to the Board that Dave Shemmans serve a third and final three-year term effective from 31 August 2020 as an independent non-executive director of the Board. The Committee considered that the continuity of Dave's role as an independent non-executive director was critical as we enter into a challenging new price review period. Dave has the 'first among equals' role on behalf of the non-executive directors in scrutinising the wholesale operational performance of the business and key capital projects, and provides sounding board support to the Wholesale Director. Timely notification of this matter was made to Ofwat.

The Committee is pleased to note the appointment of Kenji Oida as one of the Company's shareholder-nominated non-executive directors, replacing Ryu Nishida effective from 1 May 2019. Kenji brings with him a wealth of experience in the energy and utility markets, having been with Osaka Gas Corporation since 1988. The Committee would like to thank Ryu Nishida for his significant contribution to the Board and Company during his tenure.

Finally, the Committee is delighted to note the appointment of Ian Cain as Chief Executive Officer, after the retirement of his predecessor, Anthony Ferrar, in February 2020.

The Board is very pleased with the appointment of Ian, who brings a considerable level of experience to the Company. His previous work in the water and utility industry, with a real focus on customer experience, innovation and operational delivery, will stand the Company in good stead for the future. Ian's appointment followed a rigorous process co-ordinated by an external executive search firm with extensive due diligence by the Chairman and senior independent non-executive director on behalf of the Committee.

The Committee considered the above appointments in the light of the current lack of diversity on the Company's Board and committees. The Committee is cognisant that such appointments do not address the current lack of diversity in such forums, and the Committee will continue to focus on this imbalance when considering future candidates, as it will do when considering the replacement of Jeremy Pelczer as Board Chairman in March 2022.

The Board was conscious that the overlap between the appointment of Ian Cain (on 12 February 2020) and the retirement of Anthony Ferrar (on 29 February 2020) resulted in, temporarily, the independent non-executive directors not being the majority group on the Board for this very short period of time. However, given the benefits which accrued during this handover period in terms of knowledge sharing between Ian and Anthony, the continued oversight of decision-making by the Board and Chairman and the short period of time involved, the Committee did not believe this overlap resulted in any governance concerns. During this period no Board meetings were held and no decisions of significance taken. Timely notification of this matter, together with the Committee's views as noted above, was made to Ofwat.

The Committee is pleased that the above confirmations and appointments, which were approved by the Board, will bring a level of stability to the Board in the coming years, especially in the light of the effects of the COVID-19 pandemic, for which strong and effective leadership will be required of the Board and executive directors.

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

The Board is committed to evaluating its performance every two years, with the most recent evaluation being concluded in June 2019, with the aid of an external facilitator and the findings reported to the Board. The Board concluded during this recent review that it remained satisfied that the Committee continued to perform its duties in line with its terms of reference.

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

Remuneration Committee report

Statement from the Chairman

A summary of the Committee's activities in the 2019/20 reporting year.

Dave Shemmans
Chairman of the Remuneration Committee

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

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

Responsibilities:

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

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

This year has been significant for the Remuneration Committee with the development and implementation of an updated and enhanced executive remuneration policy which was effective from 1 April 2020.

While the work of the Committee in 2019/20 and this remuneration report focus on the effectiveness of the incentive schemes for executive, senior management and all employees introduced prior to 1 April 2015, the Committee considered the recommendations provided by Ofwat in the area of executive remuneration as part of the PR19 Business Plan process. In addition, Ofwat's latest views in its January 2019 report on Board Leadership, Transparency and Governance principles were also considered by the Committee.

Therefore, the updated remuneration policy has strengthened the link between executive pay and delivery for customers, in the areas of both annual bonus and long-term incentive plans, with the latter now specifically including customer-based targets and measurement criteria. In particular, the Committee, with the approval of the Board, has adjusted the weighting of annual bonus targets for the Chief Executive Officer and Chief Financial Officer so that 70% of any annual bonus relates directly to customer pledges.

Further detail of these changes to the executive remuneration policy, in addition to the achievements against the targets for 2019/20 shared by all employees – and the consequent bonuses payable to executive directors – are set out in this report.

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

Remuneration Committee report Continued

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 third gender pay gap report in March this year, which showed that the difference in average pay is 12.3%. This has reduced from 15.8% in 2017 but we recognise more needs to be done to close this gap even further. 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, including a revised recruitment policy and a job grading structure, to help the Company fulfil its commitment to creating a diverse and gender-balanced workforce which ensures equal opportunities for all and reflects the customers we serve.

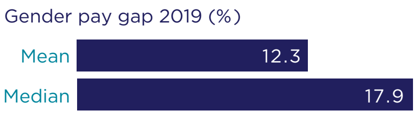
The review of the effectiveness of the Board and its committees, which last year included an externally facilitated review, concluded that the Remuneration Committee continued to fulfil its objectives appropriately.

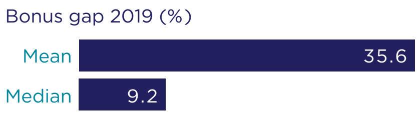
Dave Shemmans
Chairman of the Remuneration Committee

14 July 2020

Gender pay gap

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

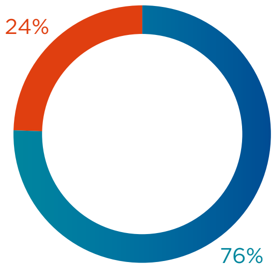




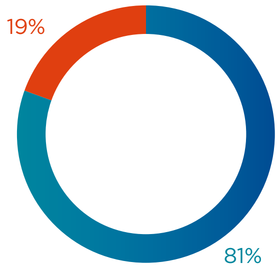
Pay quartiles

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

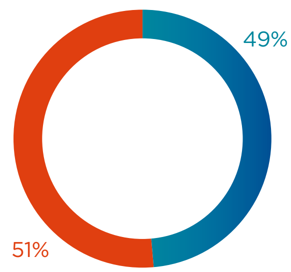
Upper quartile



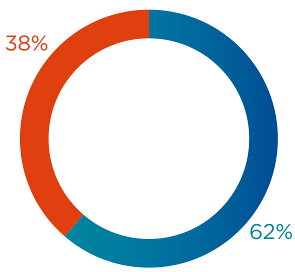
Upper middle quartile



Lower middle quartile



Lower quartile



● Male ● Female

Implementation of directors' remuneration policy in 2019/20

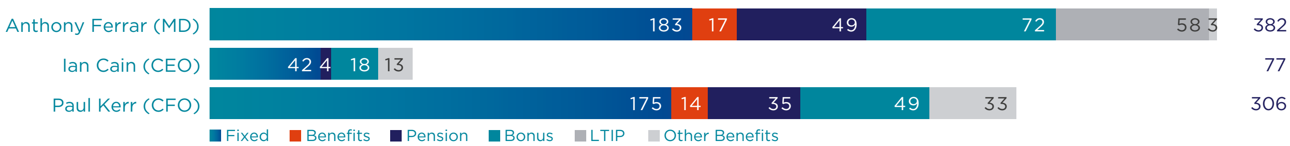
The table below summarises the implementation of the directors' remuneration policy for executive directors in 2019/20. As described further in this report, an updated executive directors' remuneration policy has been implemented from 1 April 2020 onwards.

Base salary	– Core element of a fixed amount, reflecting the size and scope of the role
Benefits	– Appropriate and sufficient level of benefits based on individual circumstances. Includes car allowance and private medical insurance for example
Retirement benefits	– Executive directors are eligible to participate in the Company's defined contribution pension scheme (or such other pension plan as may be deemed appropriate)
Annual bonus	– Rewards performance against annual targets which support the strategic direction of the Company
Long-term incentive plan (LTIP)	– Rewards performance against targets set by the Board for financial performance over three years

Single total figure of remuneration for executive directors for 2019/20

Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits, bonus and LTIP. Further information on the single total figure of remuneration can be seen on page 77.

Total pay due to executive directors (£000)



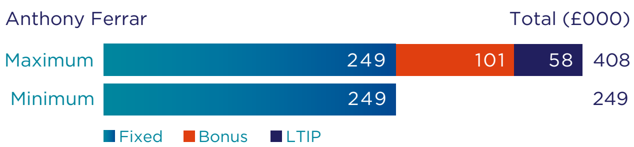
1 Anthony Ferrar retired from the Company on 29 February 2020. All earned annual bonus and LTIP amounts, as reviewed and approved by the Remuneration Committee, which were paid to Anthony Ferrar upon his retirement, are reflected above.

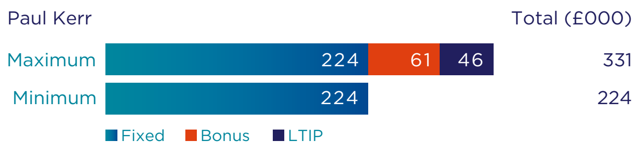
2 Ian Cain was appointed as Chief Executive Officer on 12 February 2020. The above amount represents his earned salary, pension, benefits, bonus and other benefits in the period from his appointment date up to 31 March 2020. This included a payment of £12,500 for mitigation of loss of bonus and LTIP payments earned from his previous employment.

3 Paul Kerr's 2019/20 salary and benefits also included a payment of £33,000 for loss of bonus and LTIP payments earned from his previous employment.

Annual bonus and long-term incentive plan outcomes

The charts below show the relative split of remuneration between the fixed pay (base salary, benefits and pensions) and variable pay (other benefits, bonus and LTIP) for Anthony Ferrar and Paul Kerr under the three scenarios described on page 75.





Remuneration Committee report Continued

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 ended 31 March 2020 are shown below.

Updated remuneration policy – effective from 1 April 2020

While this remuneration report focuses on Board and executive directors' remuneration for the year ended 31 March 2020, the Board acknowledges and fully agrees with Ofwat's recent pronouncements on its expectations with respect to companies being transparent about how executives are remunerated and especially how any performance-related element is linked to customer interests and the measures are stretching in nature.

The Board has considered the comments provided by Ofwat in the area of executive remunerations as part of the PR19 Business Plan process, together with Ofwat's latest views in its January 2019 report on BLTG principles.

Therefore, the Remuneration Committee developed an updated and enhanced executive director pay policy (the 'updated remuneration policy' or 'updated policy'), effective from 1 April 2020. This updated remuneration policy has strengthened the substantial link between executive pay and delivery for customers, in the areas of both annual bonus and LTIPs, with the latter now specifically including customer-based targets and measurement criteria. Performance targets will be regularly assessed to ensure they remain stretching throughout the 2020 2025 Business Plan period.

Specifically, the Remuneration Committee has:

- Adjusted the weighting of the annual bonus targets for the Chief Executive Officer and Chief Financial Officer, so that 70% of any annual bonus relates directly to a range of customer pledges
- Defined clearly the specifics of what constitutes exceptional delivery of these pledges to customers
- Retained personal targets within the annual bonus scheme to allow the Committee to include specific targets for the executive directors
- Re-defined the targets and measurement criteria for future LTIPs (starting with the 2020 LTIP commencing 1 April 2020) to include specific business resilience and customer resilience targets that are directly linked to customer service. Such customer-centric targets now account for 80% of any potential LTIP payments, with the remaining 20% based on reputational targets
- Retained the power to reduce all or part of performance-related pay payments resulting from exceptional circumstances

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

In addition, introducing business resilience into the LTIPs 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. Such business resilience targets also include network infrastructure, operational and information technology infrastructure resilience measurements.

As part of this review of business resilience, the impact of the COVID-19 pandemic, and how the executives have managed the long-term operational and financial sustainability of the business in the crisis, is a key consideration. Through our Remuneration Committee, we are committed to being fully transparent and continuously reviewing executive pay policies over time and, where they develop and change, we will explain the reasons in our Annual Report and signal changes to stakeholders. We will also include accessible explanations in 'Keeping it clear', our customer-friendly guide to how we are owned, run and financed.

For clarity in this report, each of the following sections details elements of executive directors' remuneration for the 12 months ended 31 March 2020, but is accompanied by a description of how the updated remuneration policy impacts each area of remuneration from 1 April 2020 onwards. A full copy of the updated remuneration policy is available on our website.

Components of directors' remuneration applicable for the 12 months ended 31 March 2020

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

1. Base salary

Purpose and link to strategy

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

Operation

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

Salary levels are determined by the Committee taking into account a range of factors including:

- Role, experience and performance
- Prevailing market conditions
- External benchmarks for similar roles at comparable companies
- Award levels of the rest of the business

Opportunity

Increases in base salaries are reviewed in the context of salary increases across the Company as a whole. The Committee considers any reasons why increases should diverge from this benchmark, including:

- Increase in scope, complexity or responsibility of the role
- Increase on promotion to executive director
- A salary falling significantly below market positioning

Performance metrics

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

2. Benefits

Purpose and link to strategy

- Ensures the overall package is competitive
- Purpose is to recruit and retain directors of the calibre required for the business

Operation

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

Opportunity

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

Performance metrics

Not applicable.

3. Retirement benefits

Purpose and link to strategy

- Purpose is to recruit and retain directors of the calibre required for the business
- Provides market-competitive post-employment benefits
- The executive pension contributions are set per individual’s contract. This is higher than other employees within the business and is considered part of their overall remuneration package

Operation

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

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

Opportunity

The executive directors have personal pension plans.

Performance metrics

Not applicable.

Remuneration Committee report Continued

4. Annual bonus

Purpose and link to strategy

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

Operation

Annual targets include shared corporate targets for the levels of service to customers and other aspects of operational performance, financial performance, and individual targets for the achievement of personal goals. Targets are set by the Board (advised by the Remuneration Committee) before the start of each financial year and are assessed following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the Risk and Compliance Statement (as published on pages 123 and 124). 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%
- Chief Financial Officer – 35%

Note: Anthony Ferrar, the previous Managing Director, retired on 29 February 2020. He was subject to the maximum bonus opportunity – 55% – as noted above. The new Chief Executive Officer, Ian Cain, will also be subject to the same maximum bonus opportunity.

Performance metrics

The weightings of annual targets across the three main categories described above are:

2019/20	Customer service and operational performance	Financial performance	Personal targets	Total
Managing Director	10.0%	20.0%	25.0%	55.0%
Chief Financial Officer	10.0%	7.5%	17.5%	35.0%

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.

Effect of updated Remuneration policy on annual bonus from 1 April 2020

With respect to the components of executive remuneration noted above, the updated Remuneration policy will not impact base salary, benefits or retirement benefits. However, the annual bonus metrics have been substantially altered to be more customer-centric.

The maximum bonus opportunities remain the same for the Chief Executive Officer (55%) and Chief Financial Officer (35%), but the weighting of annual targets is now across two main categories as follows:

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

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

Customer pledges	% split
Water quality	16.7%
Customer satisfaction (C-Mex)	16.7%
Leakage	16.7%
Supply interruptions	16.7%
Per capita consumption	16.7%
Affordability	16.7%
Total	**100.0%**

5. Long-term incentive plan

Purpose and link to strategy

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

Operation

Targets for financial performance over three years for the Company and the Group of which it is a part are set by the Board (as advised by the Remuneration Committee) annually before the start of the three-year performance period. Rewards only crystallise if the shared corporate targets for the levels of service to customers and other aspects of operational performance (as applicable under the annual bonus) are achieved. Performance is assessed annually following audit of the Company's financial statements and independent assurance of the levels of service achieved, prior to publication of the Company's Annual Report and signature of the Risk and Compliance Statement (as published on pages 123 and 124). 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 LTIP 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:

LTIP	On-target	Maximum available
Chief Executive Officer	35%	70%
Chief Financial Officer	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 Committee report Continued

Effect of updated remuneration policy on LTIPs from 1 April 2020

The updated remuneration policy substantially changed the targets and measurement criteria for the Company's LTIPs commencing 1 April 2020. The updated remuneration policy has not changed the on-target and maximum available opportunities available under the LTIP for the CEO and CFO. However, the performance targets that comprise such opportunities are now set as follows, together with a requisite weighting:

- Business resilience - 50%
- Customer resilience - 30%
- Reputational - 20%

The specific measurement criteria are broken down further into the following key components, which will be measured and monitored for achievement by the Remuneration Committee. With the focus now on business and customer resilience criteria, all specifically aimed at long-term customer benefits, 80% of any potential LTIP award is now clearly aligned to customer performance and service.

Business resilience

Target	Measurement criteria	Weighting
Systems-based resilience	Progress on key aspects of the Company-wide resilience plans with a focus on network and operational resilience Such progress will be achieved through effective totex spend to minimise leakage, supply interruptions and supply failures and efficient capex programmes to minimise unplanned outages and ensuring performance commitments are met. Digital resilience will be a key part of achieving this overall systems-based resilience	15%
Financial resilience	Outperformance of budget Business plan financial covenant and gearing ratios are met Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions	35%
Total weighting		**50%**

Customer resilience

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

Reputational resilience

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

Remuneration scenarios for executive directors

	Minimum	Maximum
Fixed pay	Fixed elements of remuneration are base salary and pension. Base salary and the value of benefits are included in the single figure calculations on page 77	Not applicable
Variable – Bonus	No bonus	100% of potential annual bonus achieved for delivering at or above the highest performance against the respective bonus targets
Variable – LTIP	No reward earned	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 year and amended to reflect market positioning and any change in responsibilities. The Committee and Chief Executive Officer recommend the remuneration of the Chairman to the Board. The Chairman, Chief Executive Officer and Company Secretary recommend the remuneration of other non-executive directors to the Board. Non-executive directors do not receive 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 third gender pay gap report in March this year, which showed that the difference in average pay is 12.3% (2019: 12.1%), which has reduced from 15.8% in 2017 but we recognise more needs to be done to close this gap even further. The gap is caused by having fewer women in senior roles which is not uncommon in the water industry, as the science, technology, engineering and maths (STEM) fields have been predominantly male occupations with historically low participation among women. In fact, just 22% of the core STEM workforce in the UK are women (WISE UK statistics 2018) and the UK has the lowest percentage of female engineering professionals in Europe.

Although our gap is lower than the national average, the challenge for us – 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.

Remuneration Committee report Continued

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 Price 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

Agreement was reached with employee representatives in early 2020 for pay awards for the next two years commencing 1 April 2020 comprising:

- An annual pay increase of 2.2% for 2020 based on the November 2019 RPI and for 2021 this will move to a blended rate of 50% of the November 2020 Consumer Price Index Household (CPIH) and 50% of the November 2020 RPI. This includes a guaranteed minimum increase of 2% for 2021 if the blended rate is less than 2%
- Annual pay increases will coincide with the start of each financial year
- The annual pay rise will include basic pay, overtime, shift allowances, seven day working and other allowances
- Further to the pay increase it was agreed that an additional one day of holiday entitlement, for 2020/21 only, will be provided to all employees who joined on or before 2 January 2020. This is in recognition of the significant contribution and efforts by all employees in preparation for the challenging customer and performance deliverables we have targeted in our Business Plan for 2020 to 2025
- The opportunity to earn an employee bonus upon achievement of Company customer service, health, safety, quality, environmental and financial targets. The maximum bonus payable for achievement of all targets is £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 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 (resigned on 29 February 2020)
- Ian Cain – 12 February 2020
- Paul Kerr – 13 April 2018

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

- Jeremy Pelczer – 1 April 2013
- Dave Shemmans – 1 September 2014
- Murray Legg – 1 October 2015
- Jon Woods – 1 March 2016
- Seiji Kitajima – 6 February 2019
- Ryuichi Nishida – 1 April 2015 (resigned on 1 May 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 2019/20.

	Salary		Taxable benefits[3]		Pension related benefits[4]		Other benefits[5]		Annual bonus[6]		Long-term incentive[7]		Total	
	2020 £000	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000	**2020 £000**	2019 £000
Executive directors														
Anthony Ferrar[1]	**183**	184	**17**	21	**49**	53	**3**	–	**72**	68	**58**	–	**382**	326
Ian Cain[2]	**42**	–	**–**	–	**4**	–	**13**	–	**18**	–	**–**	–	**77**	–
Paul Kerr	**175**	120	**14**	13	**35**	32	**33**	33	**49**	74	**–**	–	**306**	272
John Chadwick[8]	**–**	76	**–**	3	**–**	14	**–**	–	**–**	25	**–**	–	**–**	118
Total	**400**	380	**31**	37	**88**	99	**49**	33	**139**	167	**58**	–	**765**	716
Non-executive directors[9]														
Jeremy Pelczer	**65**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	65
Murray Legg	**38**	38	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**38**	38
Dave Shemmans	**35**	35	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**35**	35
Jon Woods	**32**	32	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**32**	32
Total	**170**	170	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**170**	170
Total	**570**	550	**31**	37	**88**	99	**49**	33	**139**	167	**58**	–	**935**	886

1 Anthony Ferrar retired from the Company on 29 February 2020. All earned annual bonus and LTIP amounts, as reviewed and approved by the Remuneration Committee, which were paid to Anthony Ferrar upon his retirement are reflected in the above table.

2 Ian Cain was appointed as Chief Executive Officer 12 February 2020. The above amounts represent his earned salary, pension, benefits, bonus and other benefits in the period from his appointment date up to 31 March 2020.

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

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

5 Other benefits include payments to Ian Cain of £12,500 and Paul Kerr of £33,000 (2019: £33,000) for mitigation of loss of bonus and LTIP payments from previous employment. A final payment of £33,000 will be paid to Paul Kerr in July 2020 in respect of mitigation from previous employment and £37,500 to Ian Cain by February 2022 in respect of mitigation from previous employment.

6 Annual bonuses are variable and were determined in accordance with the policy described on page 72 and reflect performance against the targets shown on page 72.

7 Anthony Ferrar and Paul Kerr participated in the 2018 LTIP scheme covering performance from 2018 to 2020 and the 2019 LTIP scheme covering performance from 2019 to 2021. Anthony Ferrar was paid his earned portion of the 2018 and 2019 LTIP on his retirement. Payments under the LTIPs for Paul Kerr will only be considered earned and paid upon the completion of the three-year period, with first potential payment due in July 2021. Ian Cain did not participate in any of the Company's LTIPs for the year ended 31 March 2020.

8 John Chadwick was the former Finance and Regulation Director of the Company. The amounts noted in the above table represent the portion of annual salary paid to John Chadwick in prior year until his retirement on 27 September 2018. A bonus payment was determined by the Remuneration Committee and paid upon his retirement from the Company. No LTIP payment was earned or due to him at the time of his retirement.

9 Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 75. The Chairman also acts as Chairman of East Surrey Holdings Ltd, which remunerates him accordingly. None of the other non-executive directors received any remuneration from the Company.

Remuneration Committee report Continued

Percentage change in remuneration for the CEO

The table below shows the percentage change in remuneration between the years ended 31 March 2020 and 31 March 2019 for the previous Managing Director (Anthony Ferrar) and for all employees.

	Salaries and fees	Taxable benefits	Annual incentive
Managing Director	3.2%	3.2%	6%
Average for all	4.2%	4.2%	0%

The 6% change in Anthony Ferrar's annual incentive from prior year reflects his final payments upon retirement in February 2020.

CEO pay ratio

In line with the new regulatory requirements, the table below sets out the CEO ratio at median, 25th and 75th percentile of the total remuneration received by the CEO compared to the total remuneration received by our employees.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	17:1	12:1	9:1

Note, due to the overlap of Ian Cain (CEO) with Anthony Ferrar (MD) prior to the MD's retirement on 28 February 2020, the table above includes the MD's salary until the point of retirement and the CEO's salary from the following day.

Relevant details of the annual bonus scheme

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

Metrics	Unit	Target	2019/20 actual
Drinking water quality	%	99.96	99.94
C-MeX (customer satisfaction)	Rank	Top half (rank 9 or higher)	14th
Supply interruptions (>3 hours/property)	hrs/property	0.20	0.02
Leakage	ML/d	23.5	23.9
Health and safety (lost time incidents)	Number	No more than 3	5
Potential hazard early warnings (PHEW) – close out actions in 30 days	%	100%	100%
Environmental and Quality Management System – close out non-conformances in 30 days	%	100%	88%
Financial	Budget	Achieve	Achieved

Relative importance of employment costs

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

£000	**2020**	2019	% change
Employee costs	**13,337**	14,135	-4.0%
Interest paid	**10,201**	11,021	-8.0%
Capital expenditure	**35,600**	25,325	39.4%

Audit Committee report

Statement from the Chairman

A summary of the Committee's activities in the 2019/20 reporting year.

Murray Legg
Chairman of the Audit Committee

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

Attendees:

The Chairman, Chief Executive Officer, Chief Financial Officer, Quality and 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.

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 on the Company's website.

Statement

During the early part of the year, the Audit Committee was involved in supporting management with Ofwat's review of the Company's PR19 Business Plan, primarily as part of management's response to Ofwat's Draft Determination issued in July 2019. The Committee's focus in this area was not only on ensuring that appropriate assurance was provided within these responses to Ofwat, but also to ensure a satisfactory review of the financeability and long-term financial resilience of the Company's plans. The latter was particularly true when assessing the Company's financial resilience in the light of Ofwat's Final Determination issued in December 2019, the results of which played a part in the Board's decision not to request Ofwat to refer the Company's Final Determination to the Competition and Markets Authority.

However, the Committee's main focus from February 2020 onwards has been on supporting and challenging management on its financial resilience analyses in the light of the COVID-19 pandemic. The Committee has been closely involved in ensuring that appropriately resilient plans are in place by management to address the ongoing liquidity of the Company, and that the optimal balance is achieved from the financial options available to management to manage through this crisis. This has involved the stress-testing of management's liquidity scenarios and assumptions, the review of management's debt facility arrangement and covenant requirements under such circumstances, and working with management on the recommendations to the Board in respect of the optimal financial options to choose in the long-term interests of the Company's customers and other stakeholders.

Audit Committee report Continued

The above activities were in addition to the core activities of the Committee in 2019/20, including ensuring compliance with statutory and regulatory requirements and that the Company has provided a long-term viability statement. The Committee also focused on safeguarding the highest standards of integrity, financial reporting, risk management and internal controls within the Company. Further details of these core activities are provided in this report.

I continue to be impressed by the insight, diligence and seriousness the Company applies to all its assurance activities, and to the work performed to ensure the ongoing liquidity of the Company in light of the COVID-19 pandemic.

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 last year included an externally facilitated review, concluded that the Audit Committee continued to fulfil its objectives appropriately.

Murray Legg
Chairman of the Audit Committee

14 July 2020

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, 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 Committee met three times during 2019/20, and on 2 June 2020 to consider this Annual Report. At least once a year a private session is held with the Committee and external auditors without management present. At each meeting the Committee operates to a formal agenda of items including the minutes and action points of the last meeting. This ensures that an accurate record of its deliberations has been maintained and actions are progressed.

The Committee chairman also has preparatory discussions with the Chief Financial Officer, the Financial Controller, the external auditor and, where necessary, 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 COVID-19, cyber security and Brexit.

COVID-19

The Committee's main focus from February 2020 onwards has been supporting and challenging management on its financial resilience analyses. The Committee has been closely involved in ensuring that:

- Appropriately resilient plans are put in place by management to ensure the ongoing liquidity of the Company. This has involved reviewing available debt facilities and, where appropriate, supporting management in the extension of such facilities to ensure ongoing liquidity
- An optimal balance is obtained from the financial options available to management to manage through this crisis
- There has been stress-testing of management's liquidity scenarios and assumptions, and a review of management's debt facility and covenant requirements under such circumstances. Stress-testing scenarios have centred around the expected reductions in revenue (and therefore cash) associated with both the household and non-household retail markets, together with the associated levels of potential bad debt resulting from this economic downturn
- Work has been performed with management on the recommendations to the Board in respect of the optimal financial options to choose in the long-term interest of the Company's customers and other stakeholders
- Appropriate disclosure in this Annual Report has been provided in respect of the COVID-19 impact on financial reporting where relevant, for example bad debt provisioning and the valuation of pension assets

Cyber security
The Committee's consideration of the threat to assets, controls and personal data (of both employees and customers) posed by malicious activity over the internet continues to be performed in conjunction with the Company's Cyber Assessment Framework submission to the Drinking Water Inspectorate under the Network and Information Systems Regulations 2018. 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.

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

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

- The Company's assurance in relation to its PR19 Business Plan re-submissions and responses as part of the Draft and Final Determination processes. This work included agreeing the scope, process and timetable for external assurance of the Draft Determination responses where applicable, 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 responses and re-submissions, including performing a satisfactory review of the financeability and long-term financial resilience of the Company's plans in light of the Draft and Final Determinations
- 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 New Appointment and Variations (NAV) charges schemes
- The Company's risk register, including reviewing and challenging at six-monthly intervals management's assessment of the key risks faced by the business, the probability of their occurrence and the impact of mitigation measures in place. The key risks from the Company's latest risk register are illustrated on pages 42 and 43 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
- Oversight of assurance processes surrounding key financial related systems developments (such as a new billing system)
- 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 16 'Leases') together with the Company's consideration of the effect of any new accounting standards to be adopted in 2020/21
- The appropriate treatment in the financial statements of government mandated changes in tax rates
- The appointment process which replaced KPMG with PwC as the Company's external auditor, 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 arm's length basis and no cross-subsidy from the appointed business is occurring
- Formal evaluation of the performance of the external auditor

Significant accounting judgements and estimates

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 revised approach to provisioning (as supplemented by an external expert review), which involved a re-consideration of the level of bad debt provisions required in the light of an updated debt ageing analysis, recent cash collection rates and the effects of the COVID-19 pandemic

Audit Committee report Continued

- 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 policy continued to be applied in detail and were subjected to significant management and audit scrutiny. The Committee noted that this policy extended to ensuring that appropriate processes and controls were in place for the transfer of Assets Under Construction to Fixed Assets, including the requisite commencement of depreciation charges, and that significant review by management had occurred in this area in the year
- The appropriateness of the accounting estimates and disclosures for the benefits provided to employees through the Companies' 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 Guaranteed Minimum Pension matters continued to be appropriately accounted for and reported in the Company's financial statements
- The need for provisions for outstanding claims – the Committee agreed that the basis of provisions made was realistic.

Going concern

Having considered a paper from management on the Company's liquidity and forecast obligations for the immediate future and for the period to 31 March 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 guidance in this area as detailed in Information Notice 19/07) as set out on pages 63 and 64. The Committee noted that management had appropriately considered the effects of COVID-19 within this going concern assessment, to the best of their knowledge given the information available at the time.

Fair, balanced and understandable report

The 2018 edition of the UK Corporate Governance Code requires the Board to consider whether the Annual Report is, when taken as a whole, fair, balanced and understandable and provides the information necessary for users to assess the Company's performance, business model and strategy. The Board has asked the 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 pages 123 and 124), 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 the Company. Having reviewed drafts of the Annual Report, had enquiries answered satisfactorily and noted enhancements made to initial drafts, the Committee is pleased to confirm to the Board that it considers the Annual Report meets the high standards required by the UK Corporate Governance Code.

The Audit Committee also considered that the prior year adjustments reflected in the financial statements in this Annual Report were appropriate. The Committee has worked with management to ensure that effective controls are in place in the areas of bad debt, developer services and fixed assets.

External auditor

The external auditor is subject to mandatory rotation rules under FRC requirements. During 2018/19, the Committee conducted a tender process for a new external financial auditor given that the Company's incumbent auditor – KPMG – was required to rotate off after completion of the audit for the year ended 31 March 2019. The Committee, led by the 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 Tenders – Notes on Best Practice, when conducting the tender process.

The Committee therefore, after interviewing and being satisfied on its suitability, provided the Board with the recommendation to appoint PwC, which the Board subsequently approved. A detailed evaluation process was performed by the 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 Committee chair and management and (c) client references.

The 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.

The Committee approved PwC's proposed approach for the year-end statutory audit at its meeting in November 2019. Regular dialogue was held with the auditors regarding the progress and findings from the audit, including additional procedures conducted as a result of the impact of COVID-19. The Committee approved the management representations to the external auditor and also requested feedback from both management and the external audit team about the effectiveness of the audit carried out.

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

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

Note 3 to the statutory accounts (page 104) shows that the fees due to PwC all related to audit or other assurance procedures on the Company's statutory and regulatory obligations. The Committee concurred with the auditors' assessment that there are no factors which would impair its objectivity and independence. The Committee is satisfied that there are adequate safeguards in place to protect the independence and objectivity of the service provided by the external auditor, including a requirement for all non-audit work likely to exceed £10,000 to be approved by the Chairman of the Committee.

Directors' report

Report and audited financial statements

Paul Kerr
Chief Financial Officer

A statement of directors on compliance with s172 (1) of the Companies Act 2006 with respect to stakeholder engagement, reputation, environment and long-term decisions is found on page 59 of this report.

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 (resigned 29 February 2020)
- I Cain, Chief Executive Officer (appointed 12 February 2020)
- P Kerr, Chief Financial Officer and Company Secretary
- M Legg, senior independent non-executive
- D Shemmans, independent non-executive
- J Woods, independent non-executive
- S Kitajima, non-executive
- 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 76.

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 65 and 67.

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 2018 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 on page 58.

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 11. 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 160.

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

The immediate parent of the Company is SESW Holding Company Limited (which wholly owns the Company), which 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 160.

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 64.

Directors' indemnities and insurance

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

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

Principal activities

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

Stakeholder engagement

Details of engagement by the directors during the year with the Company's employees and other stakeholders is provided on pages 14, 59 and 60.

Financial results and dividends

Financial performance for the year is described on pages 40 and 41 in the financial review.

Revenue for the year ended 31 March 2020 was £69.8 million (2019: £68.3 million). Profit before taxation was £10.7 million (2019: £9.4 million). A profit of £4.6 million (2019: £7.2 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 2020 was 0.65 pence (2019: 11.9 pence) per ordinary share.

A preference dividend of nil (2019: 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, progress with the delivery of regulatory and other obligations. Such other obligations will include delivering to our communities and employees – ensuring that 'in-the-round' delivery is considered
- Known and forecast financial and non-financial performance against regulatory assumptions and internal targets, taking account of the relative importance to customers and stakeholders of such targets.

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

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

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

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

The dividend paid by the appointed business for the year ended 31 March 2020 was £6.1 million (2019: £3.1 million).

The dividends paid by the non-appointed business was £0.6 million (2019: £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 market review on pages 8 and 9.

Research and development

While the Company does not have a specific research and development function, significant innovation initiatives continue to be researched and implemented through a dedicated Innovation Manager in the Company. Activity in 2019/20 included the specification and roll-out of an industry leading smart network solution covering 6,000 properties; the installation and continued testing of the highly innovative combined smart meter and valve, for which SES Water has been shortlisted for a Water Industry Award; and the successful trialling of an internet-of-things low-cost energy sub-metering solution at our treatment works.

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 (market-based reporting) in 2020 were 3,373 tonnes of carbon dioxide equivalent (tCO_2e) (2019: 5,574 tCO_2e), a 39% reduction on the previous year. This equates to operational emissions of 56 $kgCO_2e$ per million litres of treated water (2019: 71 $kgCO_2e$).

Operational greenhouse gas emissions for 2019/20 for the regulated business include (2018/19 in brackets):

- Gas consumption: 1,200,254 kWh and 245 tCO_2e (1,153,315 kWh and 236 tCO_2e)
- Consumption of travel fuels: 1,857 kWh and 482 tCO_2e (2,026 kWh and 532 tCO_2e)
- Purchase of electricity by the company for its own use, including for transport: 51,800,997 kWh and 18 tCO_2e (54,314,517 kWh and 2,594 tCO_2e)

Directors' report Continued

Note: All conversions are using the 2019 and 2018 greenhouse gas reporting figures on a net calorific value basis.

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

In 2019/20, we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all half-hourly metered sites. The Company has also made a number of investments in refurbishing and replacing inefficient pumping equipment. We have installed new sub-metering equipment as part of a trial at one of our treatment works to allow us to monitor efficiencies of pumping equipment on an ongoing basis. The Company has invested in electric vehicle charging infrastructure across a number of operational sites, including head office, and has switched 12 diesel vans for electric vans during the year. This is the first step in a wider roll-out of electric vehicles.

The Company has solar panels installed at five treatment works and at its Redhill head office. In 2020 on-site renewable electricity generation was 270,898 kWh (2019: 211,561 kWh).

The Company is part of the Water UK commitment for water companies in England to be net zero carbon by 2030.

Charitable and political donations

During the year the Company made charitable donations amounting to £38,223 (2019: £18,839). This included a £30,000 donation to the Community Foundation for Surrey (CFS) for our dedicated grant fund. A further £115,000 in softening cost savings was also donated to local community funds across our supply area. There were no political donations (2019: nil). The largest donation to UK charities was £5,000 from our CFS grant fund to Young Epilepsy, based in Lingfield, Surrey.

Payment to suppliers

Settlement terms are agreed with suppliers as part of contract terms and it is the Company's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Creditor days remain stable at approximately 28 days (2019: 28 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 62 to 64 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 1 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

On 2 June 2020, the Board decided to defer the decision to declare an interim dividend for 2020/21 until the 22 July Board meeting in light of the COVID-19 pandemic.

On 14 May 2020 the revolving credit facility limit with NatWest was extended to £50 million from £35 million.

On 16 May 2020 a further £1 million interim payment was received in respect of an insurance claim related to an incident at Elmer Water Treatment Works.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware:

- There is no relevant audit information of which the Company's auditor is unaware
- Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of c418 of the Companies Act 2006.

Auditor

PricewaterhouseCoopers LLP (PwC) is the auditor at the date of this report. PwC replaced KPMG LLP and was appointed by directors as auditor for the financial year ended 31 March 2020 onwards on 7 February 2020.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate governance report on page 52 of this Annual Report. The Corporate governance report forms part of this directors' report and is incorporated into it.

Annual General Meeting

Our 2020 Annual General Meeting (AGM) will be held on 24 September. 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 2020 AGM, resolutions will be proposed, amongst other matters, to receive the Annual Report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint PwC as statutory auditor.

By Order of the Board.

Paul Kerr
Chief Financial Officer & Company Secretary
Redhill, Surrey

14 July 2020

Company number 02447875

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Corporate Governance Report, confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditor

Pursuant to section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, will be deemed to be reappointed as the Company's external auditors.

Independent auditors' report to the members of Sutton and East Surrey Water Plc

Report on the audit of the financial statements

Opinion

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2020 (the 'Annual Report'), which comprise: the balance sheet as at 31 March 2020; the profit and loss and other comprehensive income statement, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in Note 3 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Context

In 2018 the Audit Committee conducted a tender for a new external financial auditor given that the company's incumbent auditor, KPMG, was required to rotate off after completion of the audit for the year ended 31 March 2019 as required under audit market reforms effective from June 2016. The Board approved the appointment of PwC as external auditor for the financial year beginning 1 April 2019, and hence these are the first set of financial statements audited by PwC.

Overview

- Overall materiality: £475,000 based on approximately 5% of profit before tax. Materiality applied by the predecessor auditor in the prior year was £400,000 (5%).

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity.

- Assessment of recoverability of trade debtors
- Assessment of cost capitalisation and classification of assets under construction
- COVID-19 impact on financial reporting
- Recognition of Developer Services income

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act 1991, Environment and Safety legislation and the Competition Act and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of Management's controls to prevent and detect irregularities;
- Challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to recoverability of trade debtors (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Assessment of recoverability of trade debtors Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall bad debt provision amounted to £5.7m as at 31 March 2020 (2019: £4.0m). The provision for household customers is derived by taking an average of two years' of historical cash collection rates and also assuming that debtors are unrecoverable after a period of three years. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. In addition, Management has applied judgement in increasing the provision as a result of the expected worsening of cash collection due to COVID-19 causing an increase in customers defaulting on payments. Subsequent to the year ended 31 March 2019, Management identified an incorrect computer generated report had been used to generate the bad debt provision, which caused the provision and charge to be understated in 2019 and previous years. This has necessitated a restatement of the prior year reported bad debt provision and charge and a restatement to opening reserves. This is referred to in the Audit Committee report, and in Note 1 Accounting policies. The assessment of recoverability of trade debtors is considered a key audit risk given the high level of estimation, and because an error in the reports and model used could result in a material misstatement to the level of provision.	Our procedures included: – Auditing the model used to calculate the provision by checking the calculation logic and validating the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101. – Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically appropriate. – Challenging key assumptions by testing to supporting data, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. We also considered whether there was any management bias in how the assumptions and estimates had been derived. – Sample testing the underlying data underpinning the historical cash collection rates, and validating the integrity of the aged debt report by sample testing to invoices. – Checking that the ECL was applied to all relevant receivable categories, which led to accrued income also being brought into the receivables subject to the bad debt provision. – We have also audited Management's calculation of the restated opening bad debt provision at 1 April 2019 as a result of the prior year restatement. We evaluated the assumptions used and checked the validity of the aged debt report used and that the application of the ECL performed was mathematically accurate. – Our results: We found Management's assessment of recoverability of trade debtors to be acceptable.

Independent auditors' report to the members of Sutton and East Surrey Water Plc Continued

Key audit matter	How our audit addressed the key audit matter
Assessment of cost capitalisation and classification of Assets under Construction (AUC) Certain projects may contain a mixture of asset enhancement and maintenance, particularly when assets are being replaced or upgraded. Judgement is therefore required to ensure appropriate allocation of costs between operating and capital expenditure. Judgement includes Management's assessment of what constitutes enhancement compared to maintenance expenditure and the allocation of overheads. Given the magnitude of capital spend in the year of £35.6m, there is a risk that incorrect classification could lead to material misstatement. Further, during the year ended March 2020 it was identified that there were significant items previously classified within AUC that related to assets which had been commissioned and brought into use in prior years. Management performed a review of all capital projects in progress to determine those which had already been completed and required transferring from AUC to the relevant asset class, and calculating additional depreciation that should have been recognised. This led to £17.8m being transferred from AUC to mains (all within property, plant & equipment) as a prior year restatement, and an additional depreciation charge was recorded within the relevant prior period. This is referred to in the Audit Committee report and in Note 1 – Accounting Policy.	Our procedures included: – Assessing the process for allocating costs to capital projects and getting satisfied that this allocation has been on a consistent basis and is in line with the Company's capitalisation policy and FRS 101. – Sample testing third-party capitalised costs to invoices or contracts to confirm the amount capitalised and that it was capital in nature. – For salaries capitalised, payroll information used was vouched to audited payroll reports. The percentage capitalisation for employees was vouched to department head valuation and total capitalisation was recalculated. We challenged the finance team as to the nature of the role of employees for whom salaries were capitalised and performed analytical procedures over year-on-year capitalisation. – We sample tested the assets transferred from AUC to mains relating to the prior year restatement and also ensured the accuracy of the corrected depreciation charged by testing it to the project/asset completion date. – Our results: We found Management's assessment of cost capitalisation and classification of AUC to be acceptable.
COVID-19 impact on financial reporting Management's assessment of the impact of the COVID-19 pandemic on the Company as a whole is set out in the Strategic report and the Statement by the Chairman of the Audit Committee. In terms of the impact on the financial statements, key considerations have been in relation to the following areas: – Recoverability of trade debtors: As noted above, an additional bad debt charge was recognised at 31 March 2020 to allow for the impact of COVID-19. – Impact on going concern assessment: Management have undertaken additional going concern stress test scenarios to reflect the potential impact of COVID-19.	Our procedures included: – Reassessing the impact of COVID-19 on our risk assessment and audit approach determined at the planning stage of the audit. – Evaluating Management's assumptions with regards to the additional bad debt provision recognised against household and non-household debtors. – Assessing Management's going concern assessment, including considering the impact of sensitivities specifically applied due to COVID-19, inspecting documents to validate the recently negotiated increase to the Revolving Credit Facility, and also reperforming the calculation of debt covenants relevant to the financial year ending March 2020 and forecast covenants over the 12 month look forward period to July 2021. – Our results: We found Management's accounting for the impact of COVID-19, where relevant, to be acceptable.
Recognition of developer services income During the year, a reassessment was performed of the ageing of work in progress and deferred income recognised on the balance sheet in relation to developer services activities. The reassessment identified that a number of service and network connections had been completed however the associated work in progress and deferred income had not been appropriately released to the income statement. Prior year restatements have been recognised, which have been explained in Note 1 - Accounting Policy.	Our procedures included: – Evaluation of the methodology applied to determine the prior year restatement, including assessing the suitability and sensitivity of determining the job completion dates. – Sample testing a number of work in progress and deferred income balances at 31 March 2020 to validate that the job has not yet completed and deferral on the balance sheet is appropriate. – Our results: We found Management's recognition of developer services income to be acceptable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£475,000 (2019: £400,000).
How we determined it	Approximately 5% of profit before tax.
Rationale for benchmark applied	As the Company is a profit-orientated entity, the profit before tax from continuing activities was deemed to be the appropriate benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £23,750 (2019: £20,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. 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 Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent auditors' report to the members of Sutton and East Surrey Water Plc Continued

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements (CA06).

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report (CA06).

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 87 of the Annual Report 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 or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 62 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider 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.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 62, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on pages 79 to 83 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the directors on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Other voluntary reporting
Going concern
The directors have requested that we review the statement on page 62 in relation to going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company
The directors have requested that we perform a review of the directors' statements on pages 87 and 62 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the company, as if the company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions
The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration
The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

14 July 2020

Financial statements

Profit and loss and other comprehensive income for year ended 31 March

	Note	2020 £000	2019 Restated* £000
Revenue	2	**69,822**	68,339
Operating costs	3	**(49,511)**	(50,229)
Other operating income	4	**119**	1,630
Operating profit		**20,430**	19,740
Finance costs	6	**(10,201)**	(11,021)
Finance income	7	**444**	659
Profit before income tax		**10,673**	9,378
Income tax expenses	8	**(6,028)**	(2,187)
Profit for the financial year		**4,645**	7,191

Other comprehensive income: items that will not be classified to profit or loss	2020 £000	2019 Restated* £000
Actuarial gain/(loss) on pension scheme	**10,379**	(3,960)
Movement on deferred tax relating to net pension asset	**(1,999)**	975
Other comprehensive income/(loss) net of tax	**8,380**	(2,985)
Total comprehensive income for the year	**13,025**	4,206

* A number of restatements have been made for corrections to developer services revenue and costs, bad debt provision and depreciation – see Note 1.

Balance sheet as at 31 March

	Note	2020 £000	2019 Restated* £000
Non current assets			
Property, plant and equipment	11	**334,543**	312,042
Intangible assets	12	**7,249**	4,454
Net pension scheme assets	10	**27,356**	16,624
		369,148	333,120
Current assets			
Inventory	13	**308**	417
Debtors	14	**21,731**	24,816
Cash and cash equivalents		**25,630**	18,275
		47,669	43,508
Creditors: amounts falling due within one year	15	**(35,960)**	(31,700)
Net current assets		**11,709**	11,808
Total assets less current liabilities		**380,857**	344,928
Non-current liabilities			
Creditors: amounts falling due after more than one year	16	**(196,173)**	(173,532)
Unfunded pension obligation	10	**(994)**	(1,095)
Deferred tax liabilities	18	**(42,593)**	(35,529)
Net assets		**141,097**	134,772
Capital and reserves			
Called up share capital	19	**51,489**	51,489
Profit and loss account		**89,608**	83,283
Total shareholder funds		**141,097**	134,772

* A number of restatements have been made for corrections to developer services revenue and cost, bad debt provision and depreciation – see Note 1.

These financial statements were approved by the Board of Directors on 14 July 2020 and signed on its behalf by:

Jeremy Pelczer
Chairman

Paul Kerr
Chief Financial Officer

Company registered number: 02447875

Financial statements Continued

Statement of changes in equity as at 31 March

	Called up share capital £000	Profit and Loss account £000	Total Equity £000
Balance at 1 April 2018	**3,105**	**82,920**	**86,025**
Restatements	–	(159)	**(159)**
Restated 1 April 2018	**3,105**	**82,761**	**85,866**
Profit for the year	–	7,489	**7,489**
Restatements	–	(298)	**(298)**
Other comprehensive loss	–	(2,985)	**(2,985)**
	–	**4,206**	**4,206**
Issue of share capital	48,384	–	**48,384**
Dividends paid	–	(3,684)	**(3,684)**
Restated 31 March 2019	**51,489**	**83,283**	**134,772**
Balance at 1 April 2019	**51,489**	**83,283**	**134,772**
Profit for the year	–	4,645	**4,645**
Other comprehensive income	–	8,380	**8,380**
	–	**13,025**	**13,025**
Dividends paid	–	(6,700)	**(6,700)**
Balance at 31 March 2020	**51,489**	**89,608**	**141,097**

* Profit and loss and total equity for 2019 have been restated – see Note 1.

Cash flow statement for the year ended 31 March

	Note	2020 £000	2019 £000 Restated*
Profit in year		**4,645**	7,191
Depreciation of tangible fixed assets	3	**9,824**	9,420
Amortisation of intangible fixed assets	3	**401**	360
Interest receivable and other income		**(444)**	(659)
Interest payable and similar charges	6	**10,201**	11,021
Profit on sale of assets on disposal of property, plant and equipment	4	**(119)**	(380)
Taxation		**6,028**	2,187
		25,891	21,949
Increase in trade and other debtors		**(553)**	(3,049)
Decrease in inventory		**109**	328
Increase in trade and other creditors		**4,804**	2,678
Increase in provisions and employee benefits		**361**	540
Decrease/(increase) in amounts due to fellow subsidiary companies		**3,385**	(2,594)
		8,106	(2,097)
Interest paid		**(5,143)**	(5,273)
Tax paid		**(1,636)**	(590)
Net cash from operations		**31,863**	21,180
Cashflows from investing activities			
Proceeds from disposals of tangible fixed assets		**231**	408
Interest received		**94**	54
Acquisition of tangible fixed assets		**(32,437)**	(24,828)
Acquisition of intangible fixed assets		**(3,196)**	(497)
Net cash from investing activities		**(35,308)**	(24,863)
Cashflows from financing activities			
Proceeds from the sale of share capital		**–**	36,000
Net proceeds/(repayment) from loan		**17,500**	(27,000)
Dividends paid		**(6,700)**	(3,684)
Net cash from financing activities		**10,800**	5,316
Net increase in cash and cash equivalents		**7,355**	1,633
Cash and cash equivalents as at 1 April		**18,275**	16,642
Cash and cash equivalents as at 31 March		**25,630**	18,275

* The restatements to 2019 as detailed in Note 1 are non-cash in nature. Cash from operations in 2019 and cash and cash equivalents are therefore unchanged; however the 2019 profit in year and debtor and creditor working capital movements have been restated.

Notes to the financial statements

Note 1 – Accounting policies, restatements and significant judgements and estimates

Background

Sutton and East Surrey Water Plc (the 'Company') is a private Company incorporated in the United Kingdom and domiciled in the UK under the Company's Act 2006 and is limited by shares. The trading address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ.

The Company's principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its license and to act as a wholesaler to the non-household customer market. The Company's ultimate parent undertaking, Sumisho Osaka Gas Water UK Limited (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 Vinters Place, 68 Upper Thames Street, London, EC4V 3BJ.

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

According to the licence conditions under which the Company operates as a water only supplier, the Company is required to publish its annual results as if it were a company covered by the listing Rules of the Financial Conduct Authority. The Company operates as one segment for financial reporting purposes and hence no detailed segmental information is provided.

A. Accounting policies

The principal accounting policies are as follows:

Basis of preparation

These financial statements are 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 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 following exemptions under FRS 101 in respect of the following disclosures:

- Comparative year reconciliations for share capital, tangible fixed assets and intangible fixed 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 transactions with wholly owed group entities

The financial statements are prepared on the historical cost basis.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. All amounts are presented in GBP (£) and are presented rounded to the nearest thousand (£000).

New accounting standards adopted

IFRS16 'leases' replaced IAS 17 'leases' and became effective for the financial years commencing on or after 1 January 2019. The Company adopted IFRS16 on the 1 April 2019. IFRS16 details the recognition and measurement of lease arrangements in order to access the amount, timing and certainty of cashflows as a result of leases.

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 the purposes of these financial statements, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements.

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 tariff. 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 tariffs 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. Revenue includes an estimate of the water unbilled at year end.

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.

Notes to the financial statements Continued

Note 1 – Accounting policies, restatements and significant judgements and estimates 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 income

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 tariffs only. Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

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

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

Provision for doubtful debts

Provisioning for doubtful debt is made based on the debt's age and likelihood of recovery based on historical cash collection rates. All debts over three years are 100% 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 which are incremental to the Company.

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 (collection 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 year 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	**140 to 150**
Mains	**100**
Non-infrastructure assets	
Buildings, boreholes and service reservoirs	**5-100**
Plant and machinery	**3-25**
Motor vehicles and sundry plant	**3-15**

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

Intangible assets
Software costs are amortised and charged to the profit and loss account on a straight-line basis over the estimated useful life of the intangible asset, for software the useful economic life is between three to ten years. Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

Goodwill
Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. Impairment reviews are carried out if there is an indication that impairment may have occurred, or to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is added to the CGU that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the income statement.

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.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short term highly liquid investments with maturities of less than three months.

Notes to the financial statements Continued

Note 1 – Accounting policies, restatements and significant judgements and estimates (continued)

Inventory
Inventory is 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
A financial asset e.g. trade and other debtors 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 and loss.

Financial liabilities
Financial instruments are recognised when the Company becomes party to the contractual provisions of the instrument. Interest bearing borrowings are financial liabilities that are recognised at fair value less attributable transaction costs and subsequently measured at the effective interest method.

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 year 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 Profit and Loss and other comprehensive income 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 Profit and Loss and other comprehensive income 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.

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.

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.

B. Restatements
During the year ended 31 March 2020 management identified errors in prior years' accounting for developer services revenue and cost and bad debt provisions. The 2019 profit and loss account has therefore been restated to include £1.5m of additional Non Water revenue, £1.2m of related Non Water costs (noted as 'other operating costs') and £0.4m of additional bad debt provision (shown in 'other operating costs').

In addition, management identified assets included in assets under construction at 31 March 2019 that had been brought into use and should have been transferred to the appropriate fixed asset category. A further restatement has been made to affect this reclassification within fixed assets in 2019 and to charge additional depreciation of £0.3m in 2019 from the date these assets were brought into use.

In aggregate, the 2019 restatement reduced profit after tax for 2019 and net assets at 31 March 2019 by £0.4m.

Years prior to 31 March 2019 have also been restated as noted above for developer services revenue of £2.9m (within 'Non Water revenue') and £1.8m of cost (within 'other operating costs'), and £1.2m of additional bad debt provision. The combined impact of the restatement reduced opening 2019 retained earnings and net assets by £0.1m.

These restatements in aggregate reduced retained earnings and net assets as at 31 March 2019 by £0.5m.

The 2019 balance sheet has been restated to reflect the above adjustments, namely a reduction in fixed assets of £0.3m, a reduction in trade debtors for the additional £1.6m bad debt provision, and a reduction of deferred income and deposits from developers of £1.5m, in total a £0.4m reduction in net assets. In addition, adjustments were made to be consistent with 2020 presentation, primarily for a) £1.1m from trade debtors to contract liabilities for customers paying in advance, b) £2.9m within creditors for Developer Services income received in advance now included within contract liability and c) £3.9m from trade debtors to accrued income for income accruals at year end.

C. Significant accounting judgements and estimates
The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Given the nature of these estimates, actuals may differ from the estimate. The key estimates and areas of judgement required in the preparation of these financial statements are:

Estimate – unbilled measured income
The measured income accrual is the estimation of the amounts consumed but yet to be billed at year end, using a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £328k.

Judgement – Defined benefit pension scheme
The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in Note 10.

Judgement/Estimate – Provision for doubtful debt
The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on previous experiences including historical cash collection data, review of current economic environment, the age of the debt and actual write off history. The actual level of receivables collected may differ either favourable or negatively from those estimates given. All debts over three years are 100% provided for. In the current year the expected future impact of the COVID-19 pandemic on the ability for customers (both household and non-household) to pay their bills has been taken into consideration based on estimates of the likelihood of the situation; this increased the provision by £0.2m. If the bad debt recovery rate was to improve or worsen by 5% for debt between 12 and 36 months the bad debt provision would reduce or increase by £284k. All debt over three years is currently provided for at 100%, if all debt over 2 years was provided for this would increase the provision by £474k.

Judgement – Capitalisation of expenditure as fixed assets
The Company makes large scale investment into its fixed assets through construction and engineering projects. Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network. Only directly attributable costs are capitalised and does not include any overheads.

Notes to the financial statements Continued

Note 2 – Revenue

The Company's revenue is predominately derived from the supply of water to both household and non-household customers, all of which is within one geographical location within the UK.

	2020 £000	2019 Restated* £000
Measured water revenue (household)	**29,566**	27,225
Unmeasured water revenue (household)	**24,768**	25,098
Total household revenue	**54,334**	52,323
Wholesale revenue from retailers (non-household)	**10,862**	9,682
Other water revenue	**843**	761
Non-water revenue	**1,718**	3,391
Non-appointed income	**2,065**	2,182
Total revenue	**69,822**	68,339

* Restatement see Note 1.

Under IFRS15 the Company's revenue has been split into categories based upon the performance obligation that is met. For all unmeasured and measured water revenue this is the supply of clean water to either households or retailers operating within the competitive retail market operated by MOSL, the performance obligations are met at the time of supply to these customers. Wholesale revenue from retailers is largely from the 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.

Other water revenue includes revenue derived from the use of the appointed businesses' assets such as rental of space or land to non-associated third parties and have distinct performance obligations associated with the activity.

Non-water revenue comprises mainly of developer led activity impacting on the Company's water network, through either diversion work to relocate water assets, and activities that enable new connections to be made to the Company's water network.

Non-appointed revenue includes monies generated from activities that sit outside of the regulated water company. These include commission for billing on behalf of other water and sewerage companies, revenue generated from the on-site garage open to member of the public and rental of space for aerial sites.

Note 3 – Operating costs

	Note	2020 £000	2019 Restated* £000
Wages and salaries		**10,745**	10,230
Social security costs		**1,264**	1,271
Other pension costs		**1,328**	2,633
Total employee costs		**13,337**	14,134
Power		**5,712**	5,617
Raw materials and consumables		**3,400**	3,040
Depreciation / amortisation of owned assets	11, 12	**10,225**	9,780
Fees payable to the company auditor for the audit of annual accounts		**248**	126
Fees payable to the Company's auditor for other services			
– Audit of regulatory accounts		**75**	45
– Other assurance services		**72**	5
Other operating costs		**16,442**	17,482
Operating costs		**49,511**	50,229

Operating costs can be analysed as	2020 £000	2019 Restated* £000
Cost of sales	**32,157**	33,598
Administration expenses	**17,354**	16,631
Operating costs	**49,511**	50,229

Other operating costs noted above mainly relate to the costs of hired and contracted services and the cost of applicable business rates and the provision relating to debt arising from household customers, developers and retailers.

Wages and salaries disclosed above are shown net of capitalised costs. During the year wages and salaries of £2,226,155 (2019: £2,412,911) were capitalised within fixed asset costs.

Note 4 – Other operating income

	2020 £000	2019 £000
Proceeds from insurance claim	–	1,250
Profit on sale of fixed assets other than land	119	380
Other operating Income	**119**	1,630

Note 5 – Employees

All employees are based in the United Kingdom and are employed by SES Water. The monthly average number of persons employed (including directors) was as follows:

	2020 Number	2019 Number
Water supply	310	297
Other	1	1
Employees	**311**	298

108 of the 311 employees were female (2019: 97 of 298).

Directors

The directors' emoluments are detailed in the Remuneration Committee report included within the governance section of this report, where the highest paid director is Anthony Ferrar, Managing Director.

	2020 £000	2019 £000
Salary	183	184
Benefits	20	21
Pension-related benefits	49	53
Annual bonus	72	68
Long-term incentive	58	–
Total remuneration of highest paid director	**382**	326

There are no share options available within the Company.

Note 6 – Finance costs

During the year the Company incurred £10.2m of finance costs (2019: £11.0m) mainly relating to accretion of the index linked loan, interest charges on loans and drawn facilities and amortisation of bond fees.

	2020 £000	2019 £000
Interest on index linked bond	4,832	4,713
Indexation of bond	4,575	5,160
Bond fee amortisation	434	446
Other Interest expenses	360	303
Preference share dividend	–	399
Total finance costs	**10,201**	11,021

Note 7 – Finance income

	2020 £000	2019 £000
Expected return on pension scheme assets	2,821	3,073
Interest paid on post retirement liabilities	(2,485)	(2,559)
Other interest receivable	108	145
Total finance income	**444**	659

Notes to the financial statements Continued

Note 8 – Income tax expenses

Income tax	2020 £000	2019 (Restated*) £000
Tax expense included in profit or loss:		
Current tax:		
UK corporation tax on profits for the year	**1,041**	748
Adjustments in respect of prior periods	**(78)**	590
Total current tax	**963**	1,338
Deferred tax:		
Origination and reversal of temporary differences - pension scheme	**21**	(97)
Origination and reversal of temporary differences - other	**912**	1,057
Impact of change in tax rate	**4,184**	–
Adjustments in respect of previous years	**(52)**	(111)
Total deferred tax payable	**5,065**	849
Tax on profit	**6,028**	2,187
Tax expense included in other comprehensive income:		
Deferred tax:		
Movement in relation to pension scheme	**1,999**	(975)
Total tax expense included in other comprehensive income	**1,999**	(975)

Tax expense for the year is higher (2019: higher) than the tax expense that would have been incurred under the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 (Restated*) £000
Profit before taxation	**10,673**	9,378
Profit multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	**2,028**	1,782
Effects of:		
Preference dividends paid	**–**	76
Non-deductible expenses	**3**	32
Remeasurement of deferred tax – change in UK tax rate	**4,184**	–
Differences between current and deferred tax rates (fixed assets)	**(8)**	(136)
Differences between current and deferred tax rates (pensions)	**(49)**	(46)
Adjustments to tax charge in respect of previous years	**(130)**	479
Tax charge	**6,028**	2,187

The UK corporation tax rate for the year ended 31 March 2020 was 19% (2019: 19%).

On 17 March 2020, a change to the UK corporation tax rate was substantively enacted by a resolution under the Provisional Collection of Taxes Act 1968. The UK Government confirmed that the rate of 19% was retained, rather than reducing to 17% from 1 April 2020 that had previously been legislated.

Deferred taxes at the balance sheet date have been measured using the substantively enacted tax rate of 19% and reflected in these financial statements. This has resulted in an increase in deferred tax charge of £4.2m.

Note 9 – Dividends

During the year ended 31 March 2020, the Company paid dividends of £6,700,000 (2019: £3,684,000) to its immediate parent company SESW Holding Company Limited.

	2020 £000	2019 £000
Ordinary dividend paid June	**3,350**	1,800
Ordinary dividend paid December	**3,350**	1,884
Total dividends paid	**6,700**	3,684

The dividends were paid in two parts throughout the year with the first being paid on 13 June 2019 at 0.65 pence per share (2019: 26 June 2018 at 0.5 pence per share) and the second dividend being paid on 12 December 2019 at 0.65 pence per share (2019: 21 December 2018 at 0.37 pence per share.)

Note 10 – Employee benefits

The company participates in both a defined contribution scheme 'Group Personal Pension Plan' (GPPP) which is available for all employees, and a defined benefit scheme 'the Water Companies Pension Scheme' (WCPS), for qualifying employees.

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme. The Section's funds are administered by trustees who are independent of the Company's finances. The WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013, when it switched to a career average basis.

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

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

Contributions are set based upon funding valuations carried out every three years; the next valuation is due to be carried out as at 31 March 2020. Over the year to 31 March 2020 total employer contributions to the Section were £nil (2019: £673,000). The estimated amount of total employer contributions expected to be paid to the Section during 2020/21 is £nil.

Guaranteed Minimum Pension (GMP)

On 26 October 2018, a high court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation; this was consulted with the scheme actuary.

The amounts recognised in profit and loss are:

	2020 £000 WCPS	**2020 £000 Unfunded**	**2020 £000 Total**	2019 £000 WCPS	2019 £000 Unfunded	2019 £000 Total
Employer's part of current service cost	**–**	**–**	**–**	(881)	–	(881)
Section expenses	**(267)**	**–**	**(267)**	(318)	–	(318)
Past service credit/(cost)	**200**	**–**	**200**	(600)	–	(600)
Net interest credit/(charge)	**503**	**(25)**	**478**	540	(26)	514
Total profit and loss (charge)/credit	**436**	**(25)**	**411**	**(1,259)**	**(26)**	(1,285)

The amounts recognised immediately in other comprehensive income are:

Net actuarial gains/(losses) in the year due to	**2020 £000 WCPS**	**2020 £000 Unfunded**	**2020 £000 Total**	2019 £000 WCPS	2019 £000 Unfunded	2019 £000 Total
Changes in financial assumptions	**7,641**	**78**	**7,719**	(4,559)	(43)	(4,602)
Changes in demographic assumptions	**–**	**–**	**–**	(985)	(13)	(998)
Experience adjustments on benefit obligations	**1,027**	**5**	**1,032**	421	(2)	419
Actual gain on Section assets relative to interest on Section assets	**1,628**	**–**	**1,628**	1,221	–	1,221
Adjustment to recognise the effect of asset limit	**–**	**–**	**–**	–	–	–
Gain/(loss) to recognise outside profit and loss in other comprehensive income	**10,296**	**83**	**10,379**	**(3,902)**	**(58)**	**(3,960)**

Notes to the financial statements Continued

Note 10 – Employee benefits (continued)

Changes in the net liabilities recognised in the balance sheet:

	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total	2019 £000 WCPS	2019 £000 Unfunded	2019 £000 Total
Balance sheet asset/(liability) at period start	**16,624**	**(1,095)**	**15,529**	21,112	(1,053)	20,059
Amount recognised in profit and loss	**436**	**(25)**	**411**	(1,259)	(26)	(1,285)
Amount recognised in other comprehensive income	**10,296**	**83**	**10,379**	(3,902)	(58)	(3,960)
Company contributions paid	**–**	**43**	**43**	673	42	715
Balance sheet asset/(liability) at period end	**27,356**	**(994)**	**26,362**	**16,624**	**(1,095)**	**15,529**

IAS 19 assumptions

The main assumptions used in valuation of these schemes are:

As at 31 March	2020	2019
Price Inflation – RPI	**2.90%**	3.50%
Price Inflation – CPI	**2.20%**	2.80%
Rate of increases to pensions – uncapped CPI	**2.20%**	2.80%
Rate of increases to pensions – CPI capped at 5%	**2.20%**	2.80%
Discount rate	**2.30%**	2.30%

As at 31 March	2020	2019
Life expectancy from age 60:	**Years**	Years
Male	**28.9**	28.8
Female	**30.9**	30.8
Life expectancy of a male age 60, currently aged 35	**31.6**	31.5
Life expectancy of a female age 60, currently aged 35	**33.1**	33.0

Plan assets

As at 31 March	2020 £000	2019 £000
Liability driven investments	**94,879**	90,085
BMO Global Absolute Return Bond Fund	**27,473**	34,035
Cash	**140**	490
Total	**122,492**	124,610

The majority of the Section assets are held within instruments with quoted market prices in an active market. The Section does not invest directly in property occupied by the Company or in financial securities issued by the Company.

The investment strategy is set by the Trustee 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 rates).

The sensitivity of the defined benefit obligation to some of the significant assumptions as at 31 March 2020 are shown below:

As at 31 March	2020 £000	2019 £000
Changes in assumptions		
Change in inflation rate (+0.1%)	**1,200**	1,400
Change in inflation rate (-0.1%)	**(1,200)**	(1,400)
Change in discount rate (+0.1%)	**(1,400)**	(1,700)
Change in discount rate (-0.1%)	**1,400**	1,700
Change in life expectancy (-1 year)	**(4,100)**	(4,500)

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date.

Reconciliation of defined benefit plan assets and liabilities

Changes in the present value of the defined benefit obligations are noted below:

	2020 £000	2019 £000
Opening present value of the obligations	**107,986**	104,077
Employer's part of current service cost	**–**	881
Interest on benefit obligations	**2,460**	2,533
Contributions from members	**–**	10
Actuarial (gains)/losses due to:		
– Changes in financial assumptions	**(7,641)**	4,559
– Changes in demographic assumptions	**–**	985
– Experience adjustments on obligation	**(1,027)**	(421)
Past service	**(200)**	600
Benefits paid	**(6,300)**	(5,238)
Closing present value of the obligations	**95,278**	107,986

The company has also made provision (31 March 2020: £994,000 (31 March 2019: £1,095,000)) for an unfunded pension 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 the Company's defined benefit obligation.

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

As at 31 March	2020 £000	2019 £000
Opening fair value of the Section assets	**124,610**	125,189
Interest on Section assets	**2,821**	3,073
Actual return less interest on plan assets	**1,628**	1,221
Contributions by the employer	**–**	673
Contributions by members	**–**	10
Benefits paid	**(6,300)**	(5,238)
Expenses	**(267)**	(318)
Closing fair value of Section assets	**122,492**	124,610

The net asset recognised in the balance sheet has not been limited as the Company believes that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the Section.

Notes to the financial statements Continued

Note 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 2019 restated*	5,088	2,533	119,845	110,291	235,178	9,334	33,721	515,990
Additions	–	–	–	–	–	827	31,610	32,437
Transfers	–	–	9,842	17,585	4,190	–	(31,617)	–
Disposals	–	–	(1)	–	–	(759)		(760)
31 March 2020	**5,088**	**2,533**	**129,686**	**127,876**	**239,368**	**9,402**	**33,714**	**547,667**
Depreciation								
1 April 2019 restated*	–	402	34,629	69,130	92,546	7,241	–	203,948
Charge for year	–	20	2,429	4,855	1,682	838	–	9,824
Disposals	–	–	(1)	–	–	(647)	–	(648)
31 March 2020	**–**	**422**	**37,057**	**73,985**	**94,228**	**7,432**	**–**	**213,124**
Net book value								
31 March 2020	**5,088**	**2,111**	**92,629**	**53,891**	**145,140**	**1,970**	**33,714**	**334,543**
31 March 2019 (Restated*)	5,088	2,131	85,216	41,161	142,632	2,093	33,721	312,042

* Fixed assets at 31 March 2019 have been restated to reclassify assets brought into use during 2019 from assets in the course of construction to the appropriate fixed asset categories. Upon this reclassification, additional depreciation of £0.3m has been charged in 2019, resulting in a restated 31 March 2019 net book value.

Land comprises freehold land at £5,048,000 (2019: £5,048,000) and long leasehold land at £40,648 (£40,648).

Note 12 – Intangible assets

	Software £000	Goodwill £000	Work in progress £000	Total £000
Cost				
1 April 2019 restated*	5,981	19,454	384	25,819
Additions	–	–	3,196	3,196
Transfer	210	–	(210)	–
Disposals	–	–	–	–
31 March 2020	**6,191**	**19,454**	**3,370**	**29,015**
Amortisation				
1 April 2019 restated*	4,998	16,367	–	21,365
Charge for year	401	–	–	401
Disposals	–	–	–	–
31 March 2020	**5,399**	**16,367**	**–**	**21,766**
Net book value				
31 March 2020	**792**	**3,087**	**3,370**	**7,249**
31 March 2019 (Restated*)	983	3,087	384	4,454

* Intangible assets at 31 March 2019 have been restated to reclassify assets brought into use during 2019 from work in progress to the appropriate intangible asset categories. Upon this reclassification additional amortisation has been charged, resulting in a restated 31 March 2019 net book value.

Note 13 – Inventory

	2020 £000	2019 £000
Raw materials and consumables	**308**	417

Inventory is made up critical supplies held at our water treatment works and fuel oil used to run the backup generators at the water treatment works.

Note 14 – Debtors

	2020 £000	2019 Restated* £000
Trade debtors	**18,521**	16,744
Bad debt provision	**(5,715)**	(3,955)
Amounts owed by fellow subsidiary undertakings	**1,481**	5,272
Other debtors	**1,916**	2,165
Prepayments and accrued income	**5,528**	4,590
	21,731	24,816

* Restatement see Note 1. The bad debt provision has been restated by £1.6m to correct the value of debtors and to remove any contract liabilities (where customers pay in advance) that were previously netted off in debtors that are now reported in creditors.

The carrying amounts of trade debtors are considered to be their fair values at 31 March 2020 and 31 March 2019. The amounts owed by fellow subsidiary undertakings includes £1.0m owed by East Surrey Holdings Plc, the Group's parent company, for services paid on its behalf.

The aging of trade debtors is shown below:

	£000 0-12 months	£000 12-24 months	£000 24-36 months	£000 Over 36 months	£000 Total
Household debtors	8,873	2,682	1,540	3,975	17,070
Other than household debtors	981	52	145	273	1,451
Total	**9,854**	**2,734**	**1,685**	**4,248**	**18,521**

The movement in expected credit loss model were as follows:

	2020 £000	2019 Restated* £000
Opening bad debt provision at 1 April	**(3,955)**	(3,283)
Increase in bad debt provision recognised in profit or loss during the year	**(1,879)**	(954)
Amount written off in the year	**119**	282
Closing bad debt provision at 31 March	**(5,715)**	(3,955)

Note 15 – Creditors: amounts falling due in one year

	Note	**2020 £000**	2019 Restated* £000
Trade creditors		**3,875**	2,756
Amounts owed to fellow subsidiary undertakings		**1,002**	1,407
Other creditors		**10,005**	7,098
Group relief payable		**441**	1,114
Other taxes and social security payable		**(57)**	(28)
Accruals		**12,574**	7,594
Contract liabilities		**7,653**	11,400
Leases	20	**38**	–
Deposits from developers		**429**	359
		35,960	31,700

Amounts owed to fellow subsidiary undertakings include £1.0m owed to Sumisho Osaka Gas (SOGWUK) the overall parent of the Sumisho Osaka Gas group for payment of tax losses.

	2020 £000	2019 Restated* £000
Contract liabilities		
Opening balance at 1 April 2019 (Restated*)	**11,400**	–
Revenue recognised that was included in the contract liability at the beginning of the period	**(11,400)**	–
Increase due to cash received, excluding amounts recognised as revenue during the period	**7,653**	11,400
Balance at 31 March 2020	**7,653**	11,400

Notes to the financial statements Continued

Contract liabilities as at 31 March 2020 include £8.1m of cash received in advance from customers for water and wastewater charges. Wastewater charges are collected on behalf of other Water and Sewerage Companies (WASCs) and passed through. The prior year contract liability has been restated to include all customers which have paid in advance of receiving the service and have been offset by payments that have been received from customers who are yet to be billed.

Contract liabilities have also been restated to include £2.9m of infrastructure charges and service connections paid in advance.

Note 16 – Creditors: amounts falling due after one year

	Note	**2020 £000**	2019 £000
2.874% secured index-linked bond 2027-2031		**164,939**	159,930
3.25% irredeemable debentures		**50**	50
5.00% irredeemable debentures		**52**	52
Long-term bank loans		**31,000**	13,500
Leases	20	**132**	–
Creditors falling due after one year		**196,173**	173,532

Note 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 business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are denominated in pound sterling.

Credit risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meets it obligations.

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 a AAA rating. 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 £4,855,698 (2019: £5,290,537) are netted against the carrying value of the bond, and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate. The other long-term borrowings are charged at a margin above LIBOR.

The effective interest rate of borrowings is disclosed in Note 16 above and in Table 1E of the Regulatory accounts on page 136.

Liquidity risk

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below:

Maturities	**2020 £000**	2019 £000
Between one and two years	**31,000**	13,500
Between two and five years	**132**	–
More than five years	**165,041**	160,032
	196,173	173,532

Undrawn committed borrowing facilities

The facilities available at the balance sheet date are unsecured, current facilities available to the Company are set out below:

Expiring	**2020 £000**	2019 £000
In less than one year	**1,000**	1,000
Between one and two years	**4,000**	11,500
	5,000	12,500

Market risk – Interest rate risk

The Company adopts a policy of ensuring the majority of its exposure to interest charges on borrowings is 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 a 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 up on 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 bond is at a fixed rate 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.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

The analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for prior year.

	2020 £000	2019 £000
Equity		
Increase	**46**	40
Decrease	**(46)**	(40)
Profit or loss		
Increase	**(46)**	(40)
Decrease	**46**	40

Fair values

The fair values together with their carrying amounts are shown in the balance as follows:

	2020		2019	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
2.874% secured index-linked bond 2027-2031	**164,939**	**230,021**	159,930	233,419

There is no material difference between the fair values and market values for all other financial assets and liabilities presented in the balance sheet.

Note 18 – Deferred tax liability

	2020 £000	2019 £000
Deferred tax assets due within 12 months	**–**	–
Deferred tax liabilities due within 12 months	**59**	(79)
Carrying amount at year end	**59**	(79)
Deferred tax assets due in more than 12 months	**–**	–
Deferred tax liabilities due in more than 12 months	**42,534**	35,608
Carrying amount at year end	**42,534**	35,608
Total carrying amount at year end	**42,593**	35,529

Notes to the financial statements Continued

Note 18 – Deferred tax liability (continued)

Deferred tax liabilities	Accelerated capital allowances £000	Pensions £000	Other £000	Total £000
At 1 April 2018 Restated*	31,943	3,712	–	35,655
Charged to the income statement	967	(97)	(21)	849
Credited directly to other comprehensive income	–	(975)	–	(975)
At 31 March 2019 Restated*	32,910	2,640	(21)	35,529
Charged to the income statement	4,712	332	21	5,065
Credited directly to other comprehensive income	–	1,999	–	1,999
At 31 March 2020	**37,622**	**4,971**	**–**	**42,593**

* The above has been restated for the tax effects of restatements outlined in Note 1.

There are no unused tax losses or unused tax credits.

Note 19 – Called up share capital

Allotted, called up and fully paid	**2020 £000**	2019 £000
514,894,370 ordinary shares of £0.10 each	**51,489**	51,489

Allotted, called up and fully paid	**2020 £000**	2019 £000
514,894,370 ordinary shares of £0.10 each (2019: 514,894,370 of £0.10 each)	**51,489**	51,489

The Company has one class of ordinary shares which carries no right to fixed income. 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 the meetings of the Company.

Note 20 – Leases

The Company adopted IFRS 16 ‘leases’ on 1 April 2019, using the modified retrospective approach whereby right-of-use assets and lease liabilities were brought onto the balance sheet at the present value of future lease payments using the appropriate discount rate. No leases were held in the 2019 financial year.

Payments associated with short-term leases of the twelve electric vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The company has lease contracts for electric commercial vehicles used in operations. The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the balance sheet

	Note	**2020 £000**	2019 £000
Right-of-use assets			
Vehicles		**175**	–
		175	–
Lease liabilities			
Current	15	**38**	–
Non-current	16	**132**	–
		170	–

There were no recognised lease assets and lease liabilities in 2019. Adoption of IFRS 16 was based on lease contracts commencing from April 2019.

(ii) Amounts recognised in the profit and loss

The profit and loss and other comprehensive income shows the following amounts relating to leases:

	2020	2019
Depreciation charge of right-of-use assets		
Vehicles	**(27)**	–
	(27)	–
Interest expense (included in finance cost)	**(2)**	–
Future minimum lease payments as at 31 March 2020 are as follows:		
Not later than one year	**41**	–
Later than one year and not later than five years	**136**	–
Later than five years	**–**	–
Total gross payments	**177**	–
Impact of finance expenses	**(7)**	–
Carrying amount of liability	**170**	–

The total cashflow outflow for leases in 2020 was £38,400 (2019: nil).

Note 21 – Cash flow from management of liquid resources

	2020 £000	2019 £000
Movement in short-term deposits	**8,176**	(1,078)
Interest received on deposits	**40**	54
Movement in year	**8,216**	(1,024)
Liquid resources as at 31 March 2020	**22,037**	13,821

Note 22 – Cash and cash equivalents

Within liquid resources there is £5,523,326 (2019: £5,334,565) of restricted cash relating to the secured index-linked bond.

Note 23 – Commitments

	2020 £000	2019 £000
Contracted capital commitments authorised by the directors	**9,500**	13,300

Note 24 – Post balance sheet events

On 14 May 2020 the revolving credit facility limit with NatWest was extended to £50.0m from £35.0m.

In May 2020 an interim payment of £1.0m was received in respect of an insurance claim relating to an incident at Elmer Water Treatment works.

Note 25 – Related parties

The only material disclosable trading transaction between the Company and related parties, other than those disclosed in Note 1 of the regulatory accounts on page 160 was a contribution of £59,631 (2019: £48,514) to Water UK, and pension management fees of £22,000 (2019: £20,000) to the Water Companies (Pension Fund) trustee.

Note 26 – 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 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.

Regulatory reporting

Annual Board statement on the Company's purpose, direction, aspirations and performance

Embedding purpose

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

As a Board, we strive to ensure that this purpose is embedded in every decision that we make, as well as the decisions and actions of the Company's employees. Examples include:

- Sustained and targeted investment decisions in all areas of the Company, from flood defences and leakage detection technology to installing new trunk mains to increase the flexibility of our pipe network and improve long-term resilience
- A focus on the long-term impact of the decisions that are made today, such as the benefits to the environment of reducing water consumption and the value of investing in the education of young people – our customers of the future
- Being a responsible company that does more than provide an essential service, from agreeing new work experience programmes to increasing the financial support we provide to local good causes.

Direction and aspirations

As a Board we work with executive management to ensure that our long-term strategy reflects the views of our customers and stakeholders. The Board is involved at each stage of the process in 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 varied touchpoints we have on their lives – our aspiration 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 actively 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 the final year of the five-year plan period 2015 to 2020 in delivering against the commitments in that plan. It also explains the challenges we have faced and what plans we have put in place to make sure that we meet all commitments in the final year of the current period.

This includes the progress on 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. We received and accepted the Final Determination of our plan from Ofwat earlier in the year, and are now in the process of executing against this plan which reflects the priorities of our customers and stakeholders.

While, as with all companies in the sector, we continue to assess the potential impact of COVID-19 on the early years of our Business Plans, we have already started to deliver on our plans as follows:

- Significantly increasing the number of people receiving financial support to pay their bill
- Introducing a new Environmental Scrutiny Panel to provide independent challenge to our plans to improve the environment we are all so reliant on
- Minimising the number of customers who have reason to contact us about the quality of their water
- Significant investment in our digital and billing capability to better meet our customers' expectations.

In addition to the summary of performance provided in this Annual Report, the Board reviews the performance of the Company on a monthly basis. To ensure the Board that such reporting represents an accurate and complete set of information on the Company's performance, the Board:

- Relies on the Company's system of internal control as described in the Corporate governance report on page 61 of this Annual Report. This internal control system ensures the production of both internal and external information by management, through an effective control environment, rigorous risk assessment process, accurate information system (which produces both financial and non-financial data), documented control procedures and an overall monitoring system to assess the accuracy and completeness of internally generated data (in line with Ofwat's Company Monitoring Framework guidance)
- Reviews 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 historical and forecast performance, and the initiatives in place to ensure the latter remains on track to meet or outperform budgeted objectives
- Invites other employees of the Company to present at Board meetings to hear first-hand (as opposed to through executive management) data and insights into performance in certain areas. In the last year, this included sessions on Drinking Water Management Plans and cyber security
- Utilises external parties where necessary to supplement the above work to gain further assurance on the accuracy and completement of performance data, together with requisite action points. Such assurance is obtained annually from PwC and Mott MacDonald as external auditors on financial and non-financial measures respectively. However, external parties have also been utilised throughout the year in certain areas, such as the health and review audit performed by an external party in 2019/20.
- As a Board, in addition to assessing performance, the above interactions with management and the workforce ensure the Board is able to monitor and assess the culture within the business. This allows a consideration of whether the Company purpose and responsibilities are embedded in our workforce, and allows the Board to take corrective action as needed.
- As noted on page 121, our non-executive director designated to liaise with the workforce, Dave Shemmans, also allows direct assessment by the Board of the Company's culture.

Being a responsible business

We appreciate the criticality of transparency on how businesses such as ours, which deliver essential public services, are run. As a Board, we have been pleased with the progress made in this area over the last year, with a continued focus on the following areas to provide those who are interested with additional information:

- Providing concise and clear summaries of our Business Plan internally and externally throughout the PR19 process
- Publishing minutes of Board meetings
- Publishing updated remuneration and dividend policies on our website, taking into account feedback from Ofwat during the PR19 process
- Being transparent about our financial arrangements through the annual 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
- 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 Board Leadership, Transparency and Governance (BLTG) objectives and how the Company is meeting its legal, statutory and regulatory obligations.

Regulatory reporting Continued

Leadership, transparency and governance

Meeting Ofwat's 2019 objectives

Ofwat's updated principles on BLTG came into force on 1 April 2019. The Board considers that it has met these objectives 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 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. This focus on purpose and reflection of the role of the Board in defining such matters has continued 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 assesses values and culture to satisfy itself that behaviours throughout the business are aligned with the Company's purpose. Where it finds misalignment, it takes corrective actions	
The Company's 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, purpose, aspirations and strategy

Ofwat objective and underlying provisions	Board's view
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	Similar to prior year, we have included expanded disclosures in this year's Annual Report to be 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 Company 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 ensure 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's leadership and approach to transparency and governance matters engender trust in the regulated Company and ensure accountability for its 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 continue to make progress in this area as noted below
An explanation of Group structure	Included on page 11 of this Annual Report
An explanation of dividend policies and dividends paid, and how these take into account delivery for customers and other obligations (including to employees)	This is contained within the directors' report in this Annual Report, and has been updated for AMP 7 following comments received from Ofwat during the PR19 process
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 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
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. An updated remuneration policy is presented this year, based on feedback received from Ofwat during the PR19 process

Regulatory reporting Continued

Ofwat objective and underlying provisions	Board's view
Board structure and effectiveness The Board and its 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. The Board identifies what customer and stakeholder expertise is needed in the boardroom 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 Board was conscious that the overlap between appointment of Ian Cain (on 12 February 2020) and the retirement of Anthony Ferrar (on 29 February 2020) resulted in, temporarily, the independent non-executive directors not being the majority group on the Board for this short period of time. However, given the benefits which accrued during this handover period in terms of knowledge sharing between Ian and Anthony, the continued oversight of decision-making by the Board and Chairman and the short period of time involved, the Committee did not believe this overlap resulted in any governance concerns. Timely notification of this matter, together with the Committee's views as noted above, was made to Ofwat
The Chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. These 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. However, when appointing a new Chair in 2022, that person will be independent upon appointment
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 prior 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 regaled 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

Consideration of Ofwat's recent BLTG report

In January 2019, Ofwat published its report on water companies' preparations to meet the 2019 BLTG objectives, including examples of best practice and highlighted areas for improvement. The Board has considered the guidance provided by Ofwat in this updated report, and addressed the pertinent items that apply to SES Water as follows:

Areas for improvement and focus	Board's view
Purpose, values and culture	
Explicitly state the Board's role in developing and reviewing the Company's purpose, including examples of such engagement	A clearer statement on the Board's role in developing and reviewing the Company's purposes is included at the start of this statement. In addition, the enhanced s172 disclosure in the Strategic report of the Annual Report provides examples of the Board engagement with stakeholders in this area
Expansion of the designated non-executive director role to engage with the workforce to provide the Board with a first-hand assessment of the business's culture	One of our independent non-executive directors, Dave Shemmans, has the designated role of workforce engagement. Dave's participation with the employee representation focus in the year (the Joint Negotiating and Consultative Committee) and his regular site visits, have provided significant opportunity to experience first-hand the business culture, and bring such insights into Board discussions
Explicitly document evidence that there is a strong focus from the Board on embedding the purpose in Company policies and procedures	Evidence of such a focus by the Board is provided in the earlier part of this statement, with the direct input of the Board's focus on purposes in key Company policies throughout the year
Standalone regulated Company	
Documentary evidence in APR to provide examples of the mechanisms in place to ensure that the short-term decisions made by the Board align to the Company's long-term strategy	Examples have been provided at the start of this report on the Board's short-term decisions aligned to long-term aspiration and strategy
Clearer explanation on policies in place to address director conflicts and examples of actions taken to mitigate conflicts of interest	Further detail on the use of the Company's register of directors' Interest is provided on page 58 of the Corporate governance Report
Further documentation on how the Board is assuring items that it has accurate and complete information on the Company's performance	Additional disclosure is provided in this statement with respect to Board assurance on monthly performance data
While there are no separate matters reserved for shareholders or parent companies, provide an explanation of how those matters that are properly of shareholder concern are addressed	Additional disclosure has been provided in the Corporate governance Report to address this matter
Board leadership and transparency	
Publication and implementation of updated executive pay policy, including ensuring that LTIP includes customer elements	An updated executive remuneration policy has been issued and documented in the Remuneration Committee report, and addresses enhancements to the targeting and measurement of LTIPs
Publications and implementation of updated dividend policy, including elements prescribed by Ofwat in its PR19 Final Determination. Ensure clarity is provided on how dividends could increase or decrease based on performance, and explain how dividends paid in the year are subject to this consideration	An updated dividend policy has been issued and documented in the directors' report

Approved by the Board of Directors and signed on their behalf on 14 July 2020:

Jeremy Pelczer
Chair

Ian Cain
Chief Executive Officer

Murray Legg
Senior Independent Director

Statement of directors' responsibilities

Statements of the directors to the Water Regulation Authority

(I) Certificate of adequacy including statement on sufficiency of financial resources and facilities

Under Condition I of the Company's licence, the Directors of the Company are required to provide a certificate stating that in the opinion of the Board of Directors ('the Board'), the Company has sufficient resources to enable it to carry out its regulated activities, for at least the 12 month period following the date on which the certificate is submitted to Ofwat. PwC, as our external auditor, provides third party assurance with respect to this certificate in its associated external audit opinion.

Certification

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
- In respect of the wholesale business only, all contracts entered into with 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

Evidence considered by the Board

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

Financial resources and facilities

- The budget and capital expenditure programme for 2020/21 approved by the Board
- The assessment of financial resilience provided by management as part of the going concern assessment conducted for issuance of the 2019/20 Annual Report. This included:
  - An assessment of the Company's current and projected cash positions
  - Availability committed borrowing and overdraft facilities under its £50m revolving credit facility (RCF) (available to the Company until 2024) and the £1 million bank overdraft
  - Compliance with the financial covenant ratios associated with the Company's long-dated bond
  - Available headroom under the long-dated bond covenants to access additional debt as required
  - The stress-testing of the above headroom, including the effects of the COVID-19 pandemic
- The Company's performance against 2014 Final Determination, together with the Company's financial position in light of the recent 2019 Final Determination
- The continued investment grade quality of the Company's credit
- The long-term viability statement, together with underlying assumptions, as detailed in this Annual Report

Based on the evidence reviewed and challenged by the Board as noted above, the Board is satisfied that 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, its regulated activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment).

Management resources

- The reviews, conducted through the Nomination Committee, of the current level of senior management performance, skills and experience and the CEO's views of the development required to enhance this skill set
- A review of the Company's recruitment policy, together with a review of the staff survey results for the Company, to allow consideration of recruitment and staff engagement
- The annual review presented by the CEO to the Nomination Committee of succession planning for key management and staff
- Reports, via the monthly Board performance report, of various people matters, including staff turnover, training courses, induction programmes and learning and development being provided to the staff
- Review and approval of the Company's Code of conduct and Ethics, which encompasses the Company's views and processes for ensuring diversity
- Reports, via the monthly Board performance report, on key projects and associated resource levels to deliver such projects. This includes separate reporting on key business-wide systems and capital projects in the 2020/21

year, such as the customer relationship management and billing system implementation
- Ongoing review of the composition and independence of the Board, to ensure management is fully supported throughout the year

Based on the evidence reviewed and challenged by the Board as noted above, the Board is satisfied that the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its regulated activities.

Systems of planning and internal control
The formal risk management and governance procedures as reviewed by the Audit Committee, include:

- A review of the Company's risk register and mitigating actions every six months
- The overall risk management framework and oversight processes as detailed in the Company's Compliance Code
- Review and approval for the 2020/21 internal audit programme provided by management, and review of actions arising and mitigation next steps
- External control reports provided by PwC, including reports on information technology general controls
- Management's continuity plans, including water resource plans and resilience plans reviewed as part of the PR19 process
- The Company's Code of conduct and Ethics, which details policies to prevent fraud and other unethical behaviour and the Company's whistle-blowing policy

Based on the evidence reviewed and challenged by the Board as noted above, the Board is satisfied that the Company will, for at least the next 12 months, have available to it methods of planning and internal control which are sufficient to enable it to carry out those activities.

Rights and resources other than financial resources
- Regular reports to the Audit Committee on the status of the Company's informational and operational technology
- Reports – via the monthly Board performance report – on access to water resources, status of the Company's network and treatment facilities, level of proactive and reactive maintenance levels and level of treatment work outages
- Status of the Company's insurance renewals and coverage levels

Based on the evidence reviewed and challenged by the Board as noted above, the Board is satisfied that the Company will, for at least the next 12 months, have available to it rights and resources other than financial resources which are sufficient to enable it to carry out its regulated activities.

Contracting
- Reports via the monthly Board performance reports on the status of key contracts, in particular contracts with key suppliers associated with the capital programme
- Reports by management on adherence between the Appointee and all associated companies on compliance with licence requirements on standards, including consideration of recent changes to the non-household market
- Detailed reports from management, via the monthly Board performance report, on the status of intercompany balances and transactions between the Appointee and any associated company
- Ensuring – from review of the monthly financial performance reports – compliance with licence provision on cross-subsidies between the Appointee and any associated company (Condition I)
- Confirming – via the regular Board meeting with executive management present – that no guarantees or cross-default obligations are given without Ofwat's written consent

Based on the above evidence, the Board is satisfied that all contracts entered into with associated companies include all necessary provisions and requirements concerning standard of services to be supplied by the Company, to ensure that it is able to meet its obligations as a water undertaker.

Material issues or circumstances
- No other matters or evidence were required to be considered with respect to the Company other than detailed above

In the production of this certificate of adequacy, the Board considered the information and evidence collected over the course of the year as detailed above, and duly discussed whether such evidence was sufficient to provide the forward-looking basis for this certificate. The Board considered the completeness and quality of such evidence, the balance between external and internal level of evidence and the view of all executive and non-executive directors in making their decisions to provide this certificate.

PwC, the Company's external auditor, has issued a separate opinion on the above certificate of adequacy to Ofwat as noted in www.seswater.co.uk/about-us/publications/our-annual-performance-report.

(2) Statement on sufficiency of non-financial resources

The directors confirm on page 86 of the directors' report that as at 31 March 2020 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.

(3) 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

Statement of directors' responsibilities

Continued

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 auditors' report from PricewaterhouseCoopers LLP (available on pages 88 to 93) 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 finalisation, 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 34 to 35
- 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 32 and 33
- 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 61 of the Corporate governance report, that meets the requirements of the UK Corporate Governance Code
- Reporting processes are accredited to the International Standard ISO 9001:2015 Quality Management Systems
- 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 42 and 43 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 pages 63 and 64 in the Corporate governance report.

(4) Additional regulatory disclosures

The remuneration policy of directors and how this was applied in the year to 31 March 2020 is explained on pages 70 to 76 in the Remuneration Committee report.

Each director confirms on page 86 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 85.

The tax strategy for the appointed business is the same as the strategy outlined for the Company on page 62 in the Corporate governance report.

The long-term viability statement is included in the Corporate governance report on pages 63 and 64.

Approved by the Board of Directors and signed on their behalf on 14 July 2020:

Jeremy Pelczer
Chair

Ian Cain
Chief Executive Officer

Murray Legg
Senior Independent Director

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 122 to 124
b.) Confirm that, in their opinion, the Company has contracts with any associated 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 122 to 124
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 2020
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 160.
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 122 to 124 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 14 July 2020:

Jeremy Pelczer
Chair

Ian Cain
Chief Executive Officer

Murray Legg
Senior Independent Director

Regulatory accounts

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 (RAGs) issued by the Water Services Regulatory Authority, 'Ofwat'.

The accounting policies adopted for these regulatory accounts are the same as those set out in the financial statements except where a different treatment is required in order to comply with the RAGs. 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 RAGs 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 RAGs 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

Where applicable, these regulatory financial statements reflect the effect of the restatement identified in the 2019-20 financial statements, where management identified statutory errors in prior years' accounting for developer services' income and costs, bad debt provision, and classification of assets under construction and associated depreciation. The Tables in these regulatory financial statements where the effect of this restatement is included in the prior years' calculation of cumulative values are reported in Tables 1F, 4B and 4H.

Independent auditors’ report to the Water Services Regulation Authority (the WSRA) and the Directors of Sutton and East Surrey Water Plc

Report on the Regulatory Accounting Statements contained within the Annual Performance Report

Opinion on Annual Performance Report

In our opinion, Sutton and East Surrey Water Plc’s (the Company’s) Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.08, RAG2.07, RAG3.11, RAG4.08 and RAG5.07) and the accounting policies (including the Company’s published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out on page 131.

The tables within the Company’s Annual Performance Report that we have audited (the “Regulatory Accounting Statements”) comprise:

- the regulatory financial reporting tables comprising the income statement (table IA), 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 and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2.D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis and 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 tables (tables 3A to 3S) and the additional regulatory information in tables 4A to 4W.

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 Annual Performance Report 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 Accounting Statements within the Annual Performance Report section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We remained 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 Standard, and we have fulfi1led our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – special purpose basis of preparation

In forming our opinion on the Regulatory Accounting Statements, which is not modified, we draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, 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 Accounting Statements 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 purpose. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice (“UK GAAP”). Financial information other than that prepared on the basis of UK GAAP 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.

Independent auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Sutton and East Surrey Water Plc Continued

The Regulatory Accounting Statements on pages 130 to 147 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. 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 Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit and Use of this report sections below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

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 when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the directors have not disclosed in the Regulatory Accounting Statements 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 Accounting Statements 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 Annual Performance Report other than the Regulatory Accounting Statements 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities for the Annual Performance Report and the audit
Responsibilities of the Directors for the Annual Performance Report
As explained more fully in the Statement of Directors' Responsibilities for regulatory information set out on page 125, the directors are responsible for the preparation of the Annual Performance Report 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 Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report
Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements 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 Accounting Statements.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, 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. In giving these opinions, to the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WRSA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2020 on which we reported on 14 July 2020, 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.

Other required reporting
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 Annual Performance Report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

14 July 2020

1A – Income statement

for the 12 months ended 31 March

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Revenue	**69,822**	(1,804)	(2,065)	**(3,869)**	**65,953**
Operating costs	**(49,511)**	138	581	**719**	**(48,792)**
Other operating income	**119**	–	–	**–**	**119**
Operating profit	**20,430**	(1,666)	(1,484)	**(3,150)**	**17,280**
Other income	**336**	1,666	–	**1,666**	**2,002**
Interest income	**108**	–	(44)	**(44)**	**64**
Interest expense	**(10,201)**	–	–	**–**	**(10,201)**
Profit before tax and fair value movements	**10,673**	–	(1,528)	**(1,528)**	**9,145**
Fair value gains/(losses) on financial instruments	**–**	–	–	**–**	**–**
Profit before tax	**10,673**	–	(1,528)	**(1,528)**	**9,145**
UK Corporation tax	**(963)**	–	290	**290**	**(673)**
Deferred tax	**(5,065)**	–	–	**–**	**(5,065)**
Profit for the year	**4,645**	–	(1,238)	**(1,238)**	**3,407**
Dividends	**(6,700)**	–	600	**600**	**(6,100)**

The differences between statutory and Regulatory Accounting Guidelines (RAGs) are provided in the notes on page 131.

Tax analysis

	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
Current year	**1,041**	–	(290)	**(290)**	**751**
Adjustments in respect of prior years	**(78)**	–	–	**–**	**(78)**
UK corporation tax	**963**	–	(290)	**(290)**	**673**

A reconciliation of actual tax payable to forecast tax in the PR14 Final Determination is provided in the notes on page 132.

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:

	2020 £000
Profit before tax	**9,145**
Tax using the UK corporation tax rate of 19%	**1,738**
Effects of:	
Non-deductible expenses	**3**
Profit on disposal of fixed assets	**(23)**
Pension adjustment	**(90)**
Capital allowances for the year exceeding depreciation	**(680)**
Capitalised expenditure allowed on an accounts basis	**(200)**
Adjustments to tax charge in respect of previous years	**(78)**
Other	**3**
Total current tax	**673**

1 Accounting policies

The accounting policies adopted for these regulatory accounts are the same as those set out on pages 98 to 115 except where a different treatment is required in order to comply with 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 RAGs and in accordance with the Company's 'Accounting Separation Methodology Statement', as published on the Company's website.

For the year ending 31 March 2020 the Company has reviewed the breakdown of general and support costs in the company and revised the allocation of these general and support costs to the non-appointed business based on the resources consumed in accordance with the Regulatory Accounting Guidelines which has increased the allocation of general and support costs from the appointed to the non-appointed business compared to last year.

2 Explanation of differences between statutory and RAG definitions

Note	Capital contributions (a)	STOR revenue (b)	Meter reading income (c)	**Total differences as per Table 1A**
Revenue	(1,666)	(147)	9	**(1,804)**
Operating costs	–	147	(9)	**138**
Other operating income	–	–	–	**–**
Operating profit	(1,666)	–	–	**(1,666)**
Other income	1,666	–	–	**1,666**
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, which is 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.

1A – Income statement Continued

for the 12 months ended 31 March

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 2019/20.

	PR14 FD tax reconciliation £000	Actual tax in 2019/20 £000	Difference £000
Taxable profit	11,856	9,145	2,711
Adjustments for:			
Depreciation	9,135	10,194	(1,059)
Other adjustments to taxable profit	(649)	21	(670)
Other adjustments	(7,639)	(112)	(7,527)
P&L expenditure not allowable as a deduction from taxable trading profits	10	16	(6)
Correction to interest on debt gearing adjustment & equity adjustment	4,863	–	4,863
Capital allowances	(14,774)	(13,510)	(1,264)
Adjustment for pension contributions	38	(474)	512
Grants and contributions taxable on receipts and amortisation of grants and contributions	466	(1,053)	1,519
Adjustment to tax charge in respect of previous year	–	(684)	684
Resulting in:			
Adjusted trading profit before tax	3,306	3,543	(237)
Tax based on UK corporation tax rate assumed in FD	661	708	(47)
Difference due to actual UK corporation tax rate	(33)	(35)	2
Tax based on UK corporation tax rate of 19%	628	673	(45)

Details of the tax strategy for SES Water is set out in the Corporate governance report (see page 62). For the year ending 31 March 2020 the Company has reviewed the breakdown of general and support costs in the company and revised the allocation of these general and support costs to the non-appointed business based on the resources consumed in accordance with the Regulatory Accounting Guidelines which has increased the allocation of general and support costs from the appointed to the non-appointed business compared to last year.

1B – Statement of comprehensive income

for the 12 months ended 31 March

		Adjustments			
	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	**Total adjustments £000**	**Total appointed activities £000**
Profit for the year	**4,645**	–	(1,238)	**(1,238)**	**3,407**
Actuarial gains on post-employment plans	**10,379**	–	–	**–**	**10,379**
Other comprehensive income	**(1,999)**	–	–	**–**	**(1,999)**
Total comprehensive income for the year	**13,025**	–	(1,238)	**(1,238)**	**11,787**

Other comprehensive losses are due to the movement on deferred tax relating to the actuarial gains on post-employment plans.

1C – Statement of financial position

for the 12 months ended 31 March

	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
		Adjustments			
Non-current assets					
Fixed assets	334,543	–	–	-	334,543
Intangible assets	7,249	–	–	-	7,249
Investments – loans to Group companies	-	–	–	-	-
Investments – other	-	–	–	-	-
Financial instruments	-	–	–	-	-
Retirement benefit assets	27,356	–	–	-	27,356
Total non-current assets	369,148	–	–	-	369,148
	-		–	-	-
Current assets	-	–	–	-	-
Inventories	308	–	–	-	308
Trade and other receivables	21,731	–	(490)	(490)	21,241
Financial instruments	-	–	–	-	-
Cash and cash equivalents	25,630	–	(3,774)	(3,774)	21,856
Total current assets	47,669	–	(4,264)	(4,264)	43,405
	-		–	-	-
Current liabilities	-	–	–	-	-
Trade and other payables	(30,270)	–	374	374	(29,896)
Capex creditor	(5,381)	–	–	-	(5,381)
Borrowings	-	–	–	-	-
Financial instruments	-	–	–	-	-
Current tax liabilities	(441)	–	290	290	(151)
Provisions	-	–	–	-	-
Total current liabilities	(36,092)	–	664	664	(35,428)
Net current assets	11,577	–	(3,600)	(3,600)	7,977
	-		–	-	-
Non-current liabilities	-	–	–	-	-
Trade and other payables	-	–	–	-	-
Borrowings	(196,041)	–	–	-	(196,041)
Financial instruments	-	–	–	-	-
Retirement benefit obligations	(994)	–	–	-	(994)
Provisions	-	–	–	-	-
Deferred income – grants and contributions	-	–	–	-	-
Deferred income – adopted assets	-	–	–	-	-
Preference share capital	-	–	–	-	-
Deferred tax	(42,593)	–	–	-	(42,593)
Total non-current liabilities	(239,628)	–	–	-	(239,628)
Net assets	141,097	–	(3,600)	(3,600)	137,497
	-		–	-	-
Equity	-	–	–	-	-
Called up share capital	51,489	–	–	-	51,489
Retained earnings and other reserves	89,608	–	(3,600)	(3,600)	86,008
Total equity	141,097	–	(3,600)	(3,600)	137,497

Cash attributable to non-appointed activities at 31 March 2020 was £3.774 million. Cash held by the Company was £3.593 million. Appointed activities are, therefore, deemed to have an overdraft of £0.181 million.

1D – Statement of cash flows

for the 12 months ended 31 March

		Adjustments			
	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	**Total adjustments £000**	**Total appointed activities £000**
Operating profit	**20,430**	(1,666)	(1,484)	**(3,150)**	**17,280**
Other income	**–**	1,666	–	**1,666**	**1,666**
Depreciation	**10,225**	–	–	**–**	**10,225**
Amortisation – grants and contributions	**–**	–	–	**–**	**–**
Changes in working capital	**8,106**	–	1	**1**	**8,107**
Pension contributions	**–**	–	–	**–**	**–**
Movement in provisions	**–**	–	–	**–**	**–**
Profit on sale of fixed assets	**(119)**	–	–	**–**	**(119)**
Cash generated from operations	**38,642**	–	(1,483)	**(1,483)**	**37,159**
	–	–	–	**–**	**–**
Net interest paid	**(5,049)**	–	(44)	**(44)**	**(5,093)**
Tax paid	**(1,636)**	–	321	**321**	**(1,315)**
Net cash generated from operating activities	**31,957**	–	(1,206)	**(1,206)**	**30,751**
	–				
Investing activities	**–**				
Capital expenditure	**(35,633)**	–	–	**–**	**(35,633)**
Grants and contributions	**–**	–	–	**–**	**–**
Disposal of fixed assets	**231**	–	–	**–**	**231**
Other	**–**	–	–	**–**	**–**
Net cash used in investing activities	**(35,402)**	–	–	**–**	**(35,402)**
Net cash generated before financing activities	**(3,445)**	–	(1,206)	**(1,206)**	**(4,651)**
Cash flows from financing activities					
Equity dividends paid	**(6,700)**	–	600	**600**	**(6,100)**
Net loans received	**17,500**	–	–	**–**	**17,500**
Cash inflow from equity financing	**–**	–	–	**–**	**–**
Net cash generated from financing activities	**10,800**	–	600	**600**	**11,400**
Increase/(decrease) in net cash	**7,355**	–	(606)	**(606)**	**6,749**

1E – Net debt analysis at 31 March

for the 12 months ended 31 March

		Interest rate risk profile		
	Fixed rate £000	Floating rate £000	Index linked £000	**Total £000**
Borrowings (excluding preference shares)	102	31,000	164,939	**196,041**
Total borrowings				**196,041**
Cash				**–**
Short-term deposits				**(21,856)**
Net debt				**174,185**
Gearing				**64.46%**
Adjusted gearing				**72.30%**
Full year equivalent nominal interest cost	7	1,359	9,475	**10,841**
Full year equivalent cash interest payment	4	529	4,880	**5,413**
Indicative interest rates				
Indicative weighted average nominal interest rate	6.89%	4.38%	5.75%	**5.53%**
Indicative weighted average cash interest rate	4.15%	1.71%	2.96%	**2.76%**
Weighted average years to maturity	25.00	0.22	11.17	**9.45**

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

	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	5.50	5.62	5.50	4,633	4,731	4,731
Actual performance adjustment 2010-15	1.62	1.65	1.62	1,364	1,393	1,393
Adjusted return on regulatory equity	7.12	7.27	7.12	5,997	6,124	6,124
Regulatory equity				84,228	84,228	86,017
Financing						
Gearing	–	0.02	0.02	–	19	19
Variance in corporation tax	–	(0.24)	(0.24)	–	(202)	(202)
Group relief	–	–	–	–	–	–
Cost of debt	–	0.87	0.86	–	734	736
Hedging instruments	–	–	–	–	–	–
Sub-total	**7.12**	**7.92**	**7.76**	**5,997**	**6,675**	**6,677**
Operational performance						
Totex out/(under) performance	–	(4.77)	(4.68)	–	(4,024)	(4,024)
ODI out/(under) performance	–	0.26	0.26	–	220	220
Retail out/(under) performance	–	(2.52)	(2.47)	–	(2,121)	(2,121)
Other exceptional items	–	–	–	–	–	–
Operational performance total	**–**	**(7.03)**	**(6.89)**	**–**	**(5,925)**	**(5,925)**
Total earnings	**7.12**	**0.89**	**0.87**	**5,997**	**750**	**752**
RCV growth from RPI inflation	**2.59**	**2.59**	**2.59**	**2,182**	**2,182**	**2,228**
Total shareholder return	**9.71**	**3.48**	**3.46**	**8,179**	**2,932**	**2,980**
Net dividend	**4.00**	**6.10**	**5.97**	**3,369**	**5,136**	**5,136**
Retained value	**5.71**	**(2.62)**	**(2.51)**	**4,810**	**(2,204)**	**(2,156)**
Dividends reconciliation						
Gross dividend	4.00	6.10	5.97	3,369	5,136	5,136
Interest received on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**6.10**	**5.97**	**3,369**	**5,136**	**5,136**

This information has been produced in accordance with guidance provided by Ofwat. The analysis for 2019-20 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 Company's actual capital structure only lifted returns (after actual corporation tax) to 0.6% above the level assumed in the notional capital structure used for setting price limits, which was insufficient to mitigate the additional investment in Retail and Wholesale functions.

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 this Annual Report. Prior year numbers have been restated for developer services' income and costs, bad debt provision, and classification of assets under construction and associated depreciation.
- The ODI performance reward of 0.26% earned in 2019-20 does not take into account the penalty for performance against the Service Incentive Mechanism (SIM) as noted in the Company's Final Determination. This SIM penalty has been recorded equally across the first four years and included in the average for the five years ended 31 March 2020 based on Ofwat's reporting guidance.
- The return shown differs from that shown for Return of Regulatory Equity (RoRE) in Table 4H on page 158, not least because the figure in Table 4H is presented on a cumulative basis for the full five years of the current price control period.

1Fb – Financial flows

for the 12 months ended 31 March

	Average for five years ended 31 March 2020					
	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	5.67	4.17	5.67	4,591	3,381	3,381
Actual performance adjustment 2010-15	1.68	1.24	1.68	1,360	1,002	1,002
Adjusted return on regulatory equity	7.35	5.41	7.35	5,951	4,383	4,383
Regulatory equity				80,968	80,968	59,626
Financing						
Gearing	–	1.84	1.84	–	1,099	1,099
Variance in corporation tax[1]	–	(0.91)	(1.24)	–	(739)	(739)
Group relief	–	–	–	–	–	–
Cost of debt	–	(0.07)	(0.18)	–	(59)	(111)
Hedging instruments	–	–	–	–	–	–
Sub-total	**7.35**	**6.27**	**7.77**	**5,951**	**4,684**	**4,632**
Operational performance						
Totex out/(under) performance[2]	–	1.82	2.48	–	1,476	1,476
ODI out/(under) performance	–	(0.33)	(0.45)	–	(264)	(264)
Retail out/(under) performance[3]	–	(1.95)	(2.66)	–	(1,586)	(1,586)
Other exceptional items	–	0.44	0.60	–	356	356
Operational performance total	**–**	**(0.02)**	**(0.03)**	**–**	**(18)**	**(18)**
Total earnings	**7.35**	**6.25**	**7.74**	**5,951**	**4,666**	**4,614**
RCV growth from RPI inflation	**2.52**	**2.52**	**2.52**	**2,040**	**2,040**	**1,502**
Total shareholder return	**9.87**	**8.77**	**10.26**	**7,991**	**6,706**	**6,116**
Net dividend	**4.00**	**3.92**	**5.33**	**3,239**	**3,177**	**3,177**
Retained value	**5.87**	**4.85**	**4.93**	**4,752**	**3,529**	**2,939**
Dividends reconciliation						
Gross dividend	4.00	3.92	5.33	3,239	3,177	3,177
Interest received on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**3.92**	**5.33**	**3,239**	**3,177**	**3,177**

The impact of the restatements associated with developer services, bad debt and assets under construction, as identified in Note 1 of the financial statements, have been included in the 5-year average calculations for Table 1FB. The cumulative value of these restatements on the relevant lines is shown below:

Note

1. The calculation of variance in corporation tax includes the impact of the restatements noted above, which decreased the variance by £0.051 million over the five year period.
2. The calculation of Totex out/(under) performance includes the impact of restatements noted above, which increased totex by £3.884 million over the five year period.
3. The calculation of Retail out/(under) performance includes the impact of restatements noted above, which increased retail costs by £1.483 million over the five year period.

2A – Segmental income statement

for the 12 months ended 31 March

	Wholesale			Retail	
	Water resources £000	Water network+ £000	**Wholesale total £000**	Household £000	**Total £000**
Revenue – price control	–	59,670	**59,670**	5,494	**65,164**
Revenue – non-price control	–	788	**788**	1	**789**
Operating expenditure	(4,161)	(26,382)	**(30,543)**	(8,055)	**(38,598)**
Depreciation – tangible fixed assets	(763)	(9,007)	**(9,770)**	(23)	**(9,793)**
Amortisation – intangible fixed assets	–	(239)	**(239)**	(162)	**(401)**
Other operating income	13	92	**105**	14	**119**
Operating profit before recharges			**20,011**	(2,731)	**17,280**
Recharges from other segments	–	–	**–**	(325)	**(325)**
Recharges to other segments	5	320	**325**	–	**325**
Operating profit			**20,336**	(3,056)	**17,280**

The basis of cost allocations used in this segmental income statement is described in Note 1A on page 132. 'Water network+' activities include raw water transport and storage, water treatment and treated water distribution in accordance with the definitions in the Regulatory Accounting Guidelines (RAGs).

Operating profit for wholesale activities was £0.208 million higher than was assumed in the PR14 Final Determination primarily due to lower operating costs. Operating costs were £2.471 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.

Household retail activities made an operating loss of £3.056 million due to higher costs, as noted on page 141.

2B – Wholesale totex analysis

for the 12 months ended 31 March

	Water resources £000	Water network+ £000	**Total £000**
Operating expenditure			
Power	1,623	4,086	**5,709**
Income treated as negative expenditure	–	(147)	**(147)**
Abstraction charges/discharge consents	706	–	**706**
Bulk supply/bulk discharge	–	–	**–**
Other operating expenditure – renewals expensed in year (infrastructure)	–	–	**–**
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–	**–**
Other operating expenditure – excluding renewals	1,600	18,399	**19,999**
Local authority and cumulo rates	232	3,044	**3,276**
Total operating expenditure excluding third party services	4,161	25,382	**29,543**
Third party services	–	1,000	**1,000**
Total operating expenditure	4,161	26,382	**30,543**
	–	–	**–**
Capital expenditure	–	–	**–**
Maintaining the long-term capability of the assets – infra	–	7,780	**7,780**
Maintaining the long-term capability of the assets – non-infra	249	16,605	**16,854**
Other capital expenditure – infra	–	5,947	**5,947**
Other capital expenditure – non-infra	–	1,977	**1,977**
Infrastructure network reinforcement	–	1,165	**1,165**
Total gross capital expenditure excluding third party services	249	33,474	**33,723**
Third party services	–	–	**–**
Total gross capital expenditure	249	33,474	**33,723**
Grants and contributions	–	1,666	**1,666**
Totex	4,410	58,190	**62,600**
	–	–	**–**
Cash expenditure	–	–	**–**
Pension deficit recovery payments	–	–	**–**
Other cash items	–	–	**–**
Totex including cash items	4,410	58,190	**62,600**

2C – Operating cost analysis – retail

for the 12 months ended 31 March

	Total £000
Operating expenditure	
Customer services	**2,512**
Debt management	**295**
Doubtful debts	**1,541**
Meter reading	**317**
Services to developers	**–**
Other operating expenditure	**3,390**
Total operating expenditure excluding third party services	**8,055**
Third party services operating expenditure	**–**
Total operating expenditure	**8,055**
Depreciation – tangible fixed assets	**23**
Amortisation – intangible fixed assets	**162**
Total operating costs	**8,240**
Debt written off	**118**

Operating costs for household retail activities were £2.652 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 people, technology and contractor costs incurred to address poor performance against the Service Incentive Mechanism in addition to higher costs in relation to doubtful debts. The effect of Covid-19 has been considered with regard to the doubtful debts. No third party services operating expenditure was incurred as activities such as billing and meter reading are not outsourced to third parties.

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 – Historical cost analysis of tangible fixed assets: wholesale and retail

for the 12 months ended 31 March

	Wholesale		Retail	
	Water resources £000	Water network+ £000	Household £000	**Total £000**
Cost				
At 1 April 2019	27,437	488,339	208	**515,984**
Disposals	(74)	(668)	(18)	**(760)**
Additions	217	32,220	–	**32,437**
Adjustments	–	–	–	**–**
Assets adopted at nil cost	–	–	–	**–**
At 31 March 2020	27,580	519,891	190	**547,661**
	–	–	–	**–**
Depreciation	–	–	–	**–**
At 1 April 2019	(9,135)	(194,632)	(175)	**(203,942)**
Disposals	47	583	18	**648**
Adjustments	–	–	–	**–**
Charge for the year	(763)	(9,007)	(23)	**(9,793)**
At 31 March 2020	(9,851)	(203,056)	(180)	**(213,087)**
Net book amount at 31 March 2020	17,729	316,835	10	**334,574**
Net book amount at 1 April 2019	18,302	293,707	33	**312,042**
	–	–	–	**–**
Depreciation charge for year	–	–	–	**–**
Principal services	(763)	(9,007)	(23)	**(9,793)**
Third party services	–	–	–	**–**
Total	(763)	(9,007)	(23)	**(9,793)**

The impact of the restatements associated with assets under construction (which has increased depreciation by £0.316m), as identified in Note 1 of the financial statements, has resulted in a restatement of opening balances, depreciation and net book value for Table 2D.

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

for the 12 months ended 31 March

	Fully recognised in income statement £000	Capitalised and amortised (in income statement) £000	Fully netted off capex £000	**Total £000**
Grants and contributions				
Connection charges	1,122	–	–	**1,122**
Infrastructure charge receipts	345	–	–	**345**
Requisitioned mains	177	–	–	**177**
Other contributions (price control)	–	–	–	**–**
Diversions	22	–	–	**22**
Other contributions (non-price control)	–	–	–	**–**
Total	1,666	–	–	**1,666**
Value of adopted assets	–	529	–	**529**
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	24	–	–	**24**

2F – Household: revenues by customer type

for the 12 months ended 31 March

	Wholesale charges revenue £000	Retail revenue £000	**Total revenue £000**	Number of customers	**Average household retail revenue per customer £**
Unmeasured water	23,351	1,425	**24,776**	108,685	**13**
Unmeasured wastewater only customer	25,457	4,069	**29,526**	162,355	**25**
Total	48,808	5,494	**54,302**	271,040	**20**

The household retail revenue allowance for 12 months ended 31 March 2020 was £6.030 million. This is £0.128 million less than the PR14 Final Determination allowed revenue due to our assumed number of customers being 5,000 fewer than our business plan.

We recovered £5.494 million and therefore under recovered our allowed revenue by £0.535 million (8.9%). This was due to a greater number of customers receiving the social tariff discount than budgeted for in our Business Plan.

2G – Non-household: revenues by customer type

for the 12 months ended 31 March

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 £10.862 million, primarily with SES Business Water.

2I – Revenue analysis

for the 12 months ended 31 March

	Water resources £000	Water network+ £000	Total £000
Wholesale charge			
Unmeasured	23,351	225	**23,576**
Measured	25,457	10,637	**36,094**
Third party revenue	–	–	**–**
Total	48,808	10,862	**59,670**
Retail revenue			
Unmeasured	1,425	–	**1,425**
Measured	4,069	–	**4,069**
Other third party revenue	–	–	**–**
Total	5,494	–	**5,494**
Third party revenue – non-price control			
Bulk supplies – water			**40**
Other third party revenue			**91**
Principal services – non-price control			
Other appointed revenue			**658**
Total appointed revenue			**65,953**

	Total £000
Wholesale revenue governed by price control	**59,670**
Grants and contributions	**1,666**
Total revenue governed by wholesale price control	**61,336**
Amount assumed in wholesale determination	**61,144**
Adjustment for WRFIM	**(142)**
Total assumed revenue	**61,002**
Difference between actual revenue and assumed	**334**

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 £0.334 million (0.5%) higher than the control set under the PR14 Final Determination of the wholesale price control. Ofwat's wholesale revenue forecasting incentive mechanism (WRFIM) requires that any over/(under) recovery of revenue on one year results in a reduction/increase in charges in a subsequent year. The small over recovery in 2019/20 will, all else being equal, lead to a small decrease in charges from April 2021.

2J – Infrastructure network reinforcement costs

for the 12 months ended 31 March

	Network reinforcement capex £000	On site/ site-specific capex £000
Distribution and trunk mains	1,165	–
Pumping and storage facilities	–	–
Other	–	–
Total	**1,165**	**–**

Contributions from developers for these reinforcement costs arise from infrastructure charges (£0.345 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 charge reconciliation

for the 12 months ended 31 March

	£000
Infrastructure charges	345
Discounts applied to infrastructure charges	–
Gross infrastructure charges	**345**
Comparison of revenue and costs	
Variance brought forward	(429)
Revenue	345
Costs	(1,165)
Variance carried forward	**(1,249)**

The variance brought forward from last year has been amended due to the restatement of developer services income as identified in Note 1 of the financial statements. Further there was a misstatement of the infrastructure network reinforcement shown last year which was overstated by £1.303 million.

	Variance b/f 2018/19 £000	Restatement £000	Misstatement £000	Variance b/f 2019/20
Infrastructure income	545	406		951
Network reinforcement cost	2,683		(1,303)	1,380
Variance	**(2,138)**			**(429)**

3A – Outcome performance

for the 12 months ended 31 March

Information on our performance is included in the Operating review and the Financial review within the Strategic report. We have met our target level of performance for the year on 16 out of 21 commitments for 2019-20. Outcomes of the performance commitments that are linked to financial reward or penalty for outperformance and underperformance will be reflected in the adjustment of revenue in the 2020-21 financial year. The financial impact shown in this table has been calculated based on the incentive rates agreed with Ofwat in the business planning process.

	Units	2018/19 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	0.27
A4: Condition and reliability of the mains network – number of burst pipes a year	nr	255
A5: Drinking Water Inspectorate's (DWI) index of water quality	%	99.97
A6: Taste, odour and discolouration (number of contacts received)	nr	388
A7: Water softening programme	text	Delivered
B1: Number of customers who are in water poverty and receiving assistance	nr	10,401
B2: Effectiveness of bad debt recovery (bad debt expressed as a percentage of turnover)	%	1.82
B3: Customer perception of value for money	%	8
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)	%	56
D1: Customer satisfaction (level of satisfaction in response to the tracker survey (overall quality score))	%	91.5
D2: Service Incentive Mechanism (SIM)	score	80.5
D3: Total number of complaints	nr	8.0
E1: Level of leakage measured in megalitres per day (including customer supply pipe leakage)	nr	24.1
E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d)	nr	162.6
E3: The number of children and adults engaged in environmental education activities	nr	11,798
E4: Greenhouse gas emissions per million litres of water supplied	nr	91
E5: Number of severe pollution incidents (category 3 or worse, as reported by the Environment Agency)	nr	1
E6: Environmental investigations or catchment management schemes carried out as part of the NEP	nr	0

B2: The 2018-19 bad debt provision has been restated as per the financial statements. The performance commitment relating to bad debt has therefore been restated to 1.82% for 2018-19 from the previously reported amount of 1.01%.

D2: Based on Ofwat's guidance, financial incentives do not apply for SIM in 2019-20. As noted in the Company's Final Determination, a revenue adjustment of £2.3m has been applied in PR19 in respect of the Company's 2015-20 SIM performance.

E5: We have been recently advised by the Environment Agency to revise the number of severe pollution incidents from zero to one for 2018-19.

E6: We had a reputational target to deliver 14 schemes between 2015 and 2020. We have successfully delivered such schemes. The '2019-20 performance level – actual' reflects our target at the end of the five-year period, although the majority of schemes had been delivered prior to 2019-20.

Definitions

'Earned' means a financial reward or penalty arising from performance during the year which will only crystallise post-2020.

'N/A' means no financial payment or penalty is due.

2019/20 performance level – actual	2019/20 target met?	Performance payment or penalty in-period ODIs 2019-20	Performance payment or penalty 2019-20 £m absolute value	Performance payment or penalty payable at the end of AMP 6	Performance payment or penalty payable at the end of AMP 6 £m absolute value
100	Yes	Target met	0	Target met	0
100	Yes	N/A	N/A	N/A	N/A
0.02	Yes	Outperformance payment	0.360	Outperformance payment	0.780
172	Yes	Target met	0	Target met	0
99.94	No	Underperformance payment	(0.140)	Underperformance payment	(0.153)
329	Yes	N/A	N/A	Target met	(0.055)
Delivered	Yes	Target met	N/A	Target met	N/A
14,311	Yes	N/A	N/A	N/A	N/A
2.69	No	N/A	N/A	N/A	N/A
7	Yes	N/A	N/A	N/A	N/A
0	Yes	N/A	N/A	N/A	N/A
56	Yes	Target met	N/A	Target met	N/A
89.0	No	N/A	N/A	N/A	N/A
79.48	N/A	N/A	N/A	NA	N/A
7.5	No	N/A	N/A	NA	N/A
23.9	Yes	Target met	0	Target met	0
153.1	Yes	Target met	0	Target met	0
12,179	Yes	N/A	N/A	N/A	N/A
56	Yes	N/A	N/A	N/A	N/A
4	No	N/A	N/A	N/A	N/A
14	Yes	N/A	N/A	N/A	N/A

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 to be, 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 they are used only in times of emergency or where groundwater in the chalk is stressed.

3D – Service Incentive Mechanism

for the 12 months ended 31 March

	Score
Qualitative performance	
1st survey score	4.00
2nd survey score	4.11
3rd survey score	4.02
4th survey score	4.01
Qualitative SIM score (out of 75)	56.81
Quantitative performance	
Total contact score	7.00
Quantitative SIM score (out of 25)	22.67
Total annual SIM score (out of 100)	**79.48**

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

	Current year		
	Unmeasured	Measured	All
Number of void households	3,198	6,879	10,077
Per capita consumption (excluding supply pipe leakage) l/h/d	177.56	135.21	–
Wholesale volume (Ml/d)			
Bulk supply export			0.12
Bulk supply import			–
Distribution input			164.850

4B – Wholesale totex analysis: Comparison to allowed totex

for the 12 months ended 31 March

	Current year £000	Cumulative 2015-20 £000
Actual totex	62,600	257,092
Items excluded from the menu		
Third party costs	1,000	8,822
Pension deficit recovery payments	–	1,141
Other 'Rule book' adjustments	–	–
Total items excluded from the menu	1,000	9,963
Adjusted actual totex		
Adjusted actual totex	61,600	247,129
Adjusted actual totex base year prices	51,857	219,276
Allowed totex	–	–
Allowed totex based on final menu choice base year prices	43,728	221,891

Actual totex (at 2012/13 prices, base year prices) was £8.129 million (18.6%) higher than the PR14 Final Determination allowed totex for the year and £2.615 million (1.2%) lower than the PR14 Final Determination allowed totex for the full current regulatory period. This was due to a re-phasing of capital investment to 2019-20 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. The totex shown for the full current regulatory period has been restated for errors in prior year's accounting for developer services' income and costs.

The impact of the restatements associated with developer services, bad debt and asset under construction (which cumulatively have increased Totex by £3.844m), as identified in Note 1 of the financial statements, have been included in the 5-year average calculations for Table 4B.

4C – Impact of AMP performance to date on RCV

for the 12 months ended 31 March

	£000
Cumulative totex over/(underspend) so far in the price control period	(3,125)
Customer share of cumulative totex over/(underspend)	(1,072)
RCV element of cumulative totex over/(underspend)	(1,804)
Adjustment for ODI payment or penalties	–
RCV determined at FD at 31 March	270,221
Projected 'shadow' RCV	268,417

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.

4D – Wholesale totex analysis

for the 12 months ended 31 March

	Water resources	
	Abstraction licences £000	Raw water abstraction £000
Operating expenditure		
Power	–	1,623
Income treated as negative expenditure	–	–
Abstraction charges/discharge consents	706	–
Bulk supply	–	–
Other operating expenditure – renewals expensed in year (infrastructure)	–	–
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–
Other operating expenditure – excluding renewals	–	1,600
Local authority and cumulo rates	–	232
Total operating expenditure excluding third party services	706	3,455
Third party services	–	–
Total operating expenditure	706	3,455
Capital expenditure		
Maintaining the long-term capability of the assets – infra	–	–
Maintaining the long-term capability of the assets – non-infra	–	249
Other capital expenditure – infra	–	–
Other capital expenditure – non-infra	–	–
Infrastructure network reinforcement	–	–
Total gross capital expenditure excluding third party services	–	249
Third party services	–	–
Total gross capital expenditure	–	249
Grants and contributions	–	–
Totex	706	3,704
Cash expenditure		
Pension deficit recovery payments	–	–
Other cash items	–	–
Totex including cash items	706	3,704
Unit cost information – operating expenditure (Ml)		
Licensed volume available	104,941	
Volume abstracted		64,860
Volume transported		
Average volume stored		
Distribution input volume		
Distribution input volume		
Unit cost (£/Ml)	6.73	53.27
Population		
Unit cost (£/pop)	0.96	4.70

Raw water distribution				
Raw water transport £000	Raw water storage £000	Water treatment £000	Treated water distribution £000	**Total £000**
377	–	1,293	2,416	**5,709**
–	–	(147)	–	**(147)**
–	–	–	–	**706**
–	–	–	–	**–**
–	–	–	–	**–**
–	–	–	–	**–**
130	–	7,863	10,406	**19,999**
6	–	993	2,045	**3,276**
513	–	10,002	14,867	**29,543**
–	–	–	1,000	**1,000**
513	–	10,002	15,867	**30,543**
–	–	–	7,780	**7,780**
–	–	14,052	2,553	**16,854**
–	–	–	5,947	**5,947**
–	–	–	1,977	**1,977**
–	–	–	1,165	**1,165**
–	–	14,052	19,422	**33,723**
–	–	–	–	**–**
–	–	14,052	19,422	**33,723**
–	–	–	1,666	**1,666**
513	–	24,054	33,623	**62,600**
–	–	–	–	**–**
–	–	–	–	**–**
513	–	24,054	33,623	**62,600**
62,070				
	–			
		60,170		
			60,170	
8.26	–	166.23	263.70	**–**
				735,450
0.70	–	13.60	21.57	

4F – Cost analysis: household retail

for the 12 months ended 31 March

	Household unmeasured £000	Household measured £000	**Total £000**
Operating expenditure			
Customer services	1,007	1,505	**2,512**
Debt management	118	177	**295**
Doubtful debts	618	923	**1,541**
Meter reading	–	317	**317**
Other operating expenditure	1,244	2,146	**3,390**
Total operating expenditure excluding third party services	2,987	5,068	**8,055**
Third party services operating expenditure	–	–	**–**
Total operating expenditure	2,987	5,068	**8,055**
Depreciation – tangible fixed assets (on assets existing at 31 March 2015)	7	10	**17**
Depreciation – tangible fixed assets (on assets acquired since 1 April 2015)	2	4	**6**
Amortisation – intangible fixed assets (on assets existing at 31 March 2015)	6	9	**15**
Amortisation – intangible fixed assets (on assets acquired since 1 April 2015)	59	88	**147**
Total operating costs	3,061	5,179	**8,240**
Capital expenditure	766	1,144	**1,910**
Other operating expenditure – breakdown			
Demand-side water efficiency – gross expenditure			**157**
Expenditure funded by wholesale			**–**
Demand-side water efficiency – net retail expenditure			**157**
Customer-side leak repairs – gross expenditure			**147**
Expenditure funded by wholesale			**–**
Customer-side leak repairs – net retail expenditure			**147**

4G – Wholesale current cost financial performance

for the 12 months ended 31 March

	Total £000
Revenue	60,458
Operating expenditure	(30,543)
Capital maintenance charges	(18,503)
Other operating income	105
Current cost operating profit	**11,517**
Other income	2,002
Interest income	64
Interest expense	(10,201)
Other interest expense	-
Current cost profit before tax and fair value movements	**3,382**
Fair value gains/(losses) on financial instruments	-
Current cost profit before tax	**3,382**

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. FRS 101, as reflected in the Company's statutory and regulatory accounts.

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

	Units	Current year	AMP to date
Net debt	£m	174.185	
Regulated equity	£m	96.036	
Regulated gearing	%	64.46	
Post-tax return on regulated equity	%	8.57	
RoRE (return on regulated equity)	%	3.90	4.18
Dividend yield	%	6.35	
Retail profit margin – household	%	(5.06)	
Credit rating	n/a	BBB	
Return on RCV	%	6.98	
Dividend cover	times	0.56	
Funds from operations (FFO)	£m	22.644	
Interest cover (cash)	times	5.02	
Adjusted interest cover (cash)	times	2.66	
FFO/Debt	dec	0.13	
Effective tax rate	%	8.21	
RCF	£m	16.544	
RCF/capex	dec	0.46	
Revenue (actual)	£m	65.164	
EBITDA (actual)	£m	26.566	
Movement in RoRE			
Base return	%	5.80	5.80
Totex out/(under) performance	%	0.11	0.02
Retail cost out/(under) performance	%	(0.92)	(1.09)
ODI out/(under) performance	%	(0.18)	(0.42)
Financing out/(under) performance	%	(1.02)	(0.66)
Other factors	%	(0.25)	0.53
Return on regulatory equity	%	3.90	4.18
Proportion of borrowings which are fixed rate	%		0.05
Proportion of borrowings which are floating rate	%		15.81
Proportion of borrowings which are index linked	%		84.13
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	%		15.81
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	%		84.14
Proportion of borrowings due in more than 20 years	%		0.05

Commentary on financial metrics

As noted in the commentary accompanying the revenue tables (see pages 144 and 145), actual revenue in 2019/20 was:

- £0.334 million (0.5%) higher than the amount assumed in the wholesale price control; and
- £0.535 million (8.9%) lower than the allowed revenue in the household retail price control.

As noted in the commentary accompanying the wholesale totex analysis on page 152, actual totex for the year was £8.129 million higher (at 2012/13 prices) than allowed in the wholesale price control, due to a re-phasing of capital expenditure into the current year of the five year period. As noted in the commentary accompanying the operating cost analysis for retail activities on page 141, retail operating costs for the year were £2.652 million higher than assumed in the retail price controls. Overall expenditure was therefore £10.781 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:

- Prior year numbers have been restated for developer services' income and costs, bad debt provision, and classification of assets under construction and associated depreciation.
- The ODI performance reward of 0.26% earned in 2019-20 does not take into account the penalty for performance against the Service Incentive Mechanism (SIM) as noted in the Company's Final Determination. This SIM penalty has been recorded equally across the first four years and included in the average for the five years ended 31 March 2020 based on Ofwat's reporting guidance.
- 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 85).

The impact of the restatements associated with developer services, bad debt and asset under construction (which cumulatively have increased income by £4.375m and costs by £4.881m), as identified in Note 1 of the financial statements, have been included in the 5-year average RORE calculations for Table 4H.

Notes to the regulatory accounts

1 Transactions with associated companies

Services provided by the Company and recharged to associated companies

Associate company	Company principal activity	Service provided	Turnover of associate during 19/20	Terms of supply	Value (£000)
Allmat (East Surrey) Ltd	Builders merchant	Rent of land	2,878	Other market testing	51
Allmat (East Surrey) Ltd	Builders merchant	Management services	2,878	Actual cost	10
Sutton and East Surrey Water Services Ltd	Non-household water retailer	Management services	57,609	Actual cost	77
Sutton and East Surrey Water Services Ltd	Non-household water and waste retailer	Wholesale water charges	57,609	Market code	8,495
Sutton and East Surrey Water Services Ltd	Non-household water and waste retailer	Meter reading	57,609	Other market testing	11
Total value of services provided by the Company					**8,644**

Services provided to the Company by associated companies

Associate company	Company principal activity	Service provided	Turnover of associate during 19/20	Terms of supply	Value (£000)
Advanced Minerals Ltd	Mineral processing	Disposal of waste	3,169	Actual cost	25
Sutton and East Surrey Water Services Ltd	Household emergency cover and repairs	Leak repairs	57,609	Competitive tendering	173
Sutton and East Surrey Water Services Ltd	Non-household water and waste retailer	Waste water charges	57,609	Competitive tendering	70
Total value of services provided to the Company					**268**

In the above tables the annual turnover for all companies is the latest draft management values awaiting final audit.

A dividend of £6,700,000 (2019: £3,684,000) was paid through SESW Holding Company Ltd to East Surrey Holding 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.

Glossary

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

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SES Water is a trading name of
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