DELIVERING ON OUR PROMISE

SES WATER
ANNUAL REPORT AND
ACCOUNTS 2024

Welcome to SES Water's Annual Report and accounts 2024

The Annual Report and accounts provides our customers and other stakeholders with clear and transparent information on our performance in 2023/24, including the progress we have made to deliver our customer pledges.

Providing accurate information is important to us and makes sure our customers and stakeholders can easily understand our performance.

CONTENTS

Strategic Report

Highlights	1
Delivering on our promise	2
Our business at a glance	4
Business overview	6
Chair's statement	8
Chief Executive Officer's statement	10
Our markets and emerging drivers	14
Business overview	18
Our purpose and strategy in action	20
Our pledges	22
Our pledges in action	24
Working in the public interest	34
Our stakeholders	38
Section 172 statement	42
Environmental, Social and Governance	44
Environmental Scrutiny Panel	52
Customer Scrutiny Panel	57
Financial review	59
Resilience and risk management	64
Principal risks	65
Climate change risks and opportunities (including TCFD)	70

Governance

UK Corporate Governance Code Index diagram	72
Board of Directors	74
Corporate governance (including Going concern and long-term viability statement)	76
Report from the Nomination Committee	87
Report from the Audit Committee	90
Report from the Health, Safety and Wellbeing Committee	95
Report from the Remuneration Committee	97
Directors' report	110
Statement of directors' responsibilities	115

Financial statements

Independent auditor's report	116
Financial statements	123
Notes to the financial statements	127

Group information

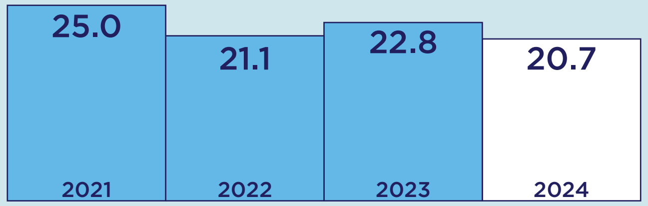
Glossary	155

PERFORMANCE AT A GLANCE

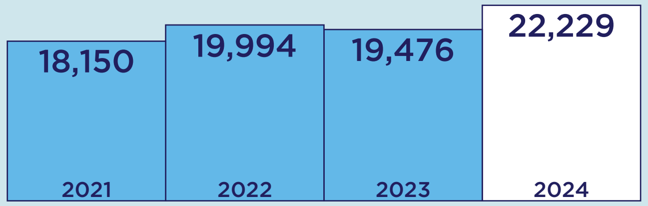
OPERATIONAL PERFORMANCE

2024: Target met/not met
Target met: ✓ Target not met: ✗

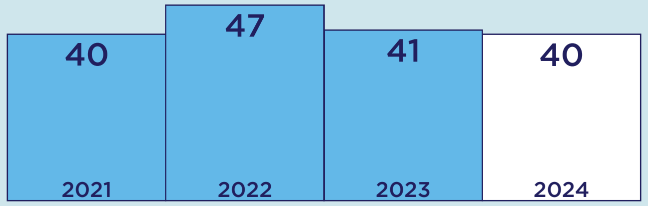
LEAKAGE ✓ 20.7
megalitres/day



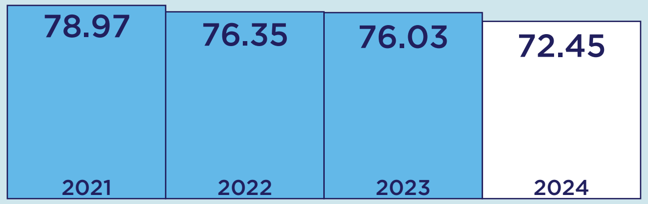
CUSTOMERS ON OUR WATER SUPPORT SCHEME ✓ 22,229
(a 50% bill reduction)



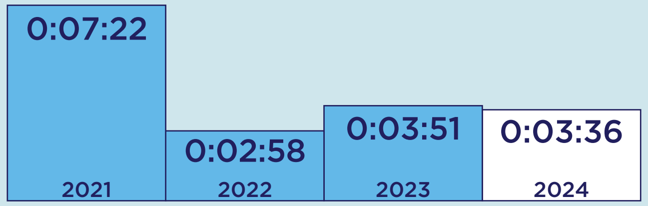
GREENHOUSE GAS EMISSIONS ✓ 40
$kgCO_2e$/megalitre



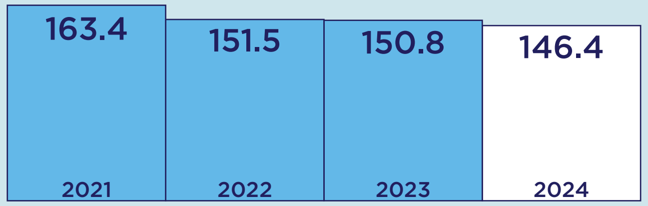
C-MEX SCORE ✗ 72.45
(industry measure of customer satisfaction)



SUPPLY INTERRUPTIONS ✓ 0:03:36
hours:minutes:seconds/property/year

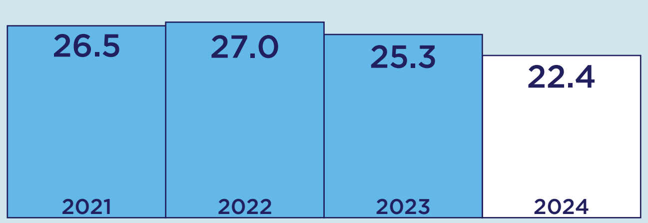


CONSUMPTION ✗ 146.4
litres consumed per person per day

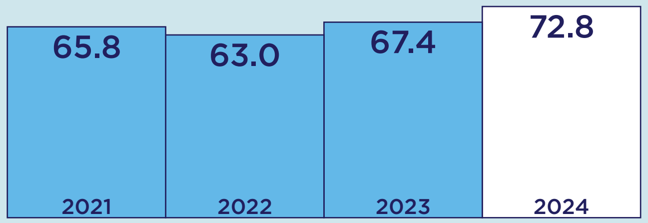


FINANCIAL PERFORMANCE

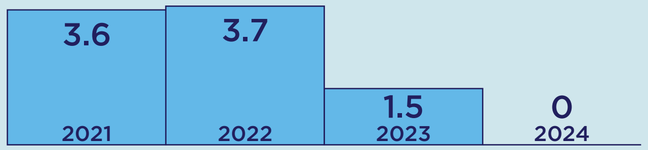
CAPITAL INVESTMENT 22.4
£m



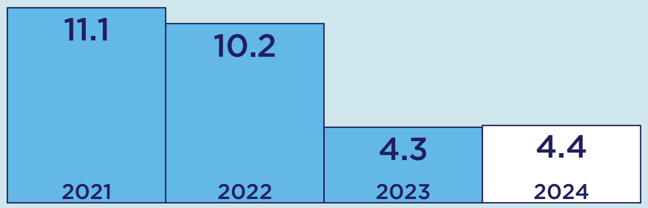
REVENUE 72.8
£m



APPOINTED DIVIDENDS PAYABLE 0
£m



OPERATING PROFIT 4.4
£m



WE DELIVERED

We have **industry leading** water quality, as measured by the **Drinking Water Inspectorate**

100%

We successfully completed an important water main replacement scheme on the A22 road, Purley, which takes us **a step closer towards 100% of properties in our supply area being supplied by more than one treatment works by 2025**

We achieved a **third Biodiversity Benchmark** Award from The Wildlife Trusts for enhancing and protecting the biodiversity at our Bough Beech site, alongside retaining the awards we already hold at our Elmer and Fetcham Springs sites. We remain the only water company currently hold the award

16yrs

We've continued to deliver our commitment to cause zero serious pollutions, with **no category 1 or 2 pollution incidents** caused in more than **16 years**

34%

We've **reduced** our greenhouse gas emission **footprint** by **34%** since 2019/20 and by 3.5% in the last year alone

27

We've partnered and helped run **27 community events,** including Run Reigate, Run Gatwick, Eco Fair, Pride In Surrey and Orphest

85%

We've surpassed this year's target of 80% for vulnerable support scheme helpfulness, with **85%** of people on our support surveyed saying the **extra services offered are helpful**

15%

Our smart network has enabled us to reduce our leakage by nearly **15%** since 2020. We've also **achieved our leakage reduction** target every year since the target was first set in 1999, which is industry leading

We've maintained **upper quartile** performance in the industry for keeping **supply interruptions to a minimum**

90%

We've resolved more than **90%** of customer calls first time and achieved our **first contact resolution** performance target

43%

Our **vehicle fleet** now comprises **43% electric and hybrid vehicles**, with the aim to reach 100% by 2030

WHO WE ARE:

We are a local water supplier, which for more than 150 years has supplied fresh, clean drinking water to our customers and communities. Throughout our history, the people at SES Water have remained committed to delivering this core purpose – it's what we've done and it's what we will always do.

WHAT WE DO:

We supply around 160 million litres of clean water every day to more than 750,000 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.

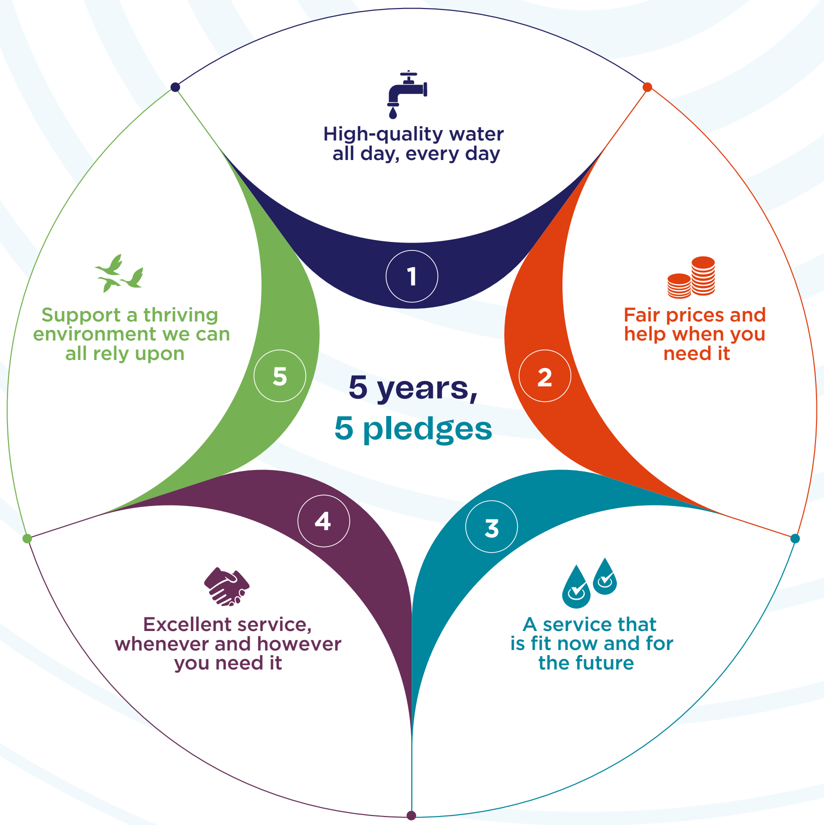
INNOVATION
We seek to improve our business, to be forward thinking and to embrace change.

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.

UNDERSTANDING SES WATER



OUR PLEDGES 2020–2025

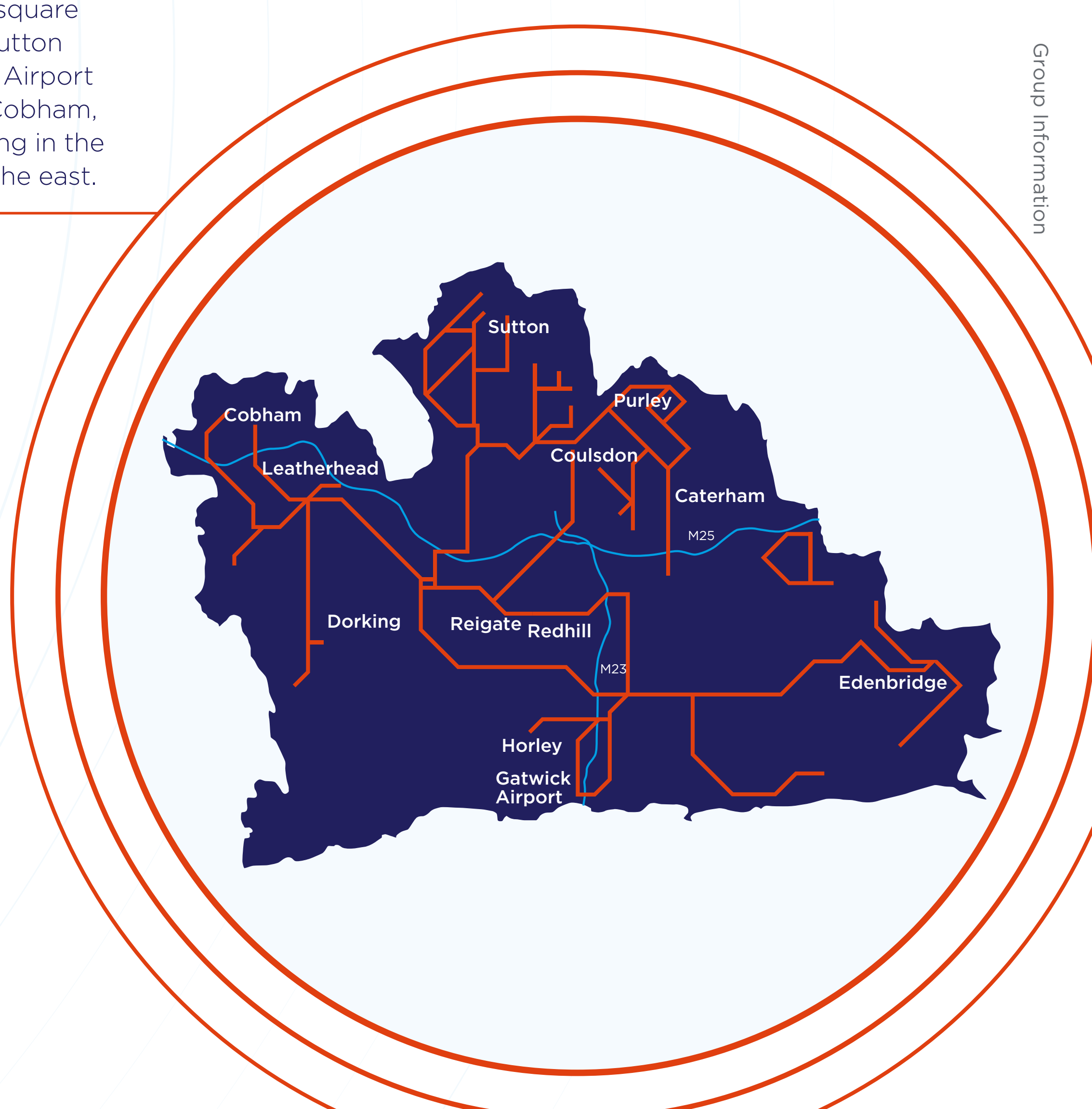
Read more on pages 22 to 33

353 Employees	**85%** Water from underground sources	**15%** Water from our reservoir
8 Water treatment works	**100%** Percentage of our pipe network that is 'smart'	**74%** Customers with a water meter
160m Litres of water supplied daily	**22,229** Number of customers on our Water Support scheme	**750k** People our water is supplied to

WHERE WE OPERATE:

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

322 SQUARE MILES



OUR STRUCTURE

Our structure allows us to focus on our core function of supplying a reliable supply of high-quality water while ensuring we provide excellent service to our customers, have the right support teams in place and continue to develop our capability into the future. The Competition and Markets Authority (CMA) published its clearance of the merger of SES Water with South West Water on 14 June 2024.

We are owned by Pennon Group plc, who on 10 January 2024 acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Ltd, the holding company of SES Water and other group entities, from our previous shareholders Sumitomo Corporation and Osaka Gas.

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

All companies within this structure are subject to UK corporation tax. This has been the case since 2013, and we have not operated any complex off-shore financing arrangements at any time during this period.

PRIVATE OWNERSHIP

Investing in water services is key to ensuring resilient supplies for customers, both now and in the future, and since privatisation in 1989, over £150bn has been invested across the industry. We have always been independent with responsible shareholders who put the interests of our customers first, allowing money to be re-invested in improving our services or kept in reserve.

Like any investors, our investors expect a return on the equity they put in and over time they have taken a fair level of dividend, in line with Ofwat's allowed level of return. Dividend levels are agreed each year by the Board and take into account how well we are performing against a range of targets, including the commitments we have made to our customers and financial performance. You can read more about our dividend policy and how payment decisions are made on pages 111 and 112.

EXECUTIVE LEADERSHIP

Ian Cain
Chief Executive Officer

Responsible for the performance of the Company in line with the strategy and objectives agreed with the Board

KEY FUNCTIONS
Development of the Company's purpose and strategic plans for consideration by the Board, ensuring the Board is supplied with information relevant to its role, leading executive directors and senior management in dealing with operational requirements of the business and providing clear and visible leadership in business conduct.

OPERATIONS

Tom Kelly
Wholesale Director

Responsible for the delivery of water from source to tap – including maintaining a sufficient water supply and reducing leakage together with overall responsibility for environmental compliance matters

KEY FUNCTIONS
Water resources planning and management, water treatment and distribution, capital investment programme, energy procurement, environmental strategy, and the service provided to business retailers and developers

QUALITY AND COMPLIANCE

Nicola Houlahan
Quality and Compliance Director

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

KEY FUNCTIONS
Water quality, health and safety, compliance and assurance, risk management

CUSTOMER EXPERIENCE

Debra Goodwin
Chief Customer Officer

Responsible for overall customer experience, communications and community engagement

KEY FUNCTIONS
Customer insight, experience, service, billing, complaints, collections, marketing and communications

INFORMATION TECHNOLOGY

Dan Lamb
Chief Digital and Information Officer

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

KEY FUNCTIONS
Digital strategy, IT infrastructure and support, cyber security and data management

BUSINESS SUPPORT AND CONTROL

Paul Kerr
Chief Financial Officer

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

KEY FUNCTIONS
Finance, economic regulation, procurement, administration, property and facilities

HR, LEARNING AND DEVELOPMENT

Sarah Brown
Group Human Resources Director

Responsible for the overall provision of human resources services, policies and procedures, people strategy and equality, diversity and inclusion

KEY FUNCTIONS
Payroll and benefits, learning and development, employee relations, recruitment and retention and employee wellbeing

PENNON GROUP PLC

100%

SES GROUP HOLDINGS LTD, FORMERLY SUMISHO OSAKA GAS WATER UK LTD

SES Water is the entity 'ring-fenced' for regulatory purposes, and holds the main debt financing balances within the East Surrey Holdings Group, namely the index-linked bond and revolving credit facilities. Limited debt financing balances exist outside of SES Water, at East Surrey Holdings Ltd and SES Business Water.

100%

EAST SURREY HOLDINGS LTD

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

100%

SESW HOLDING COMPANY LTD

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

100%

SUTTON AND EAST SURREY WATER PLC 'SES WATER'

80-100%

NON-REGULATED COMPANIES

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

CHAIR'S STATEMENT

OUR CHAIR REFLECTS ON THE LAST 12 MONTHS AND LOOKS AHEAD TO 2024/25

Dave Shemmans
Chair

"I've witnessed great compassion and dedication among our teams to go the extra mile and be there for our customers."

It's been another busy year for the Company and, as many will be aware, we've also had an additional focus on managing the strategic review initiated by our previous shareholders, Sumitomo Corporation and Osaka Gas.

This strategic review concluded in the purchase of the Company by Pennon Group plc at the start of 2024 and approval of the merger by the CMA on 14 June 2024. We're excited about the opportunities our new shareholder will bring to the business and our customers, and on behalf of the Board and the Company I would like to thank Sumitomo Corporation and Osaka Gas for the strong support over their many years of ownership of our Company.

The Board and I take our obligations for good corporate governance extremely seriously and these standards are kept under continuous review. As ever, the strength and depth of the Company means it is well placed to progress in what has become an increasingly challenging sector to operate in.

Both our Environmental Scrutiny Panel (ESP) and our Customer Scrutiny Panel (CSP) continue to consistently scrutinise and challenge the work we do. Both groups play a key role in monitoring our performance and challenge the progress of our improvement plans. We welcome their constructive feedback, and I would like to thank the members on both panels for their continued support.

Overall, I'm proud that we've continued to deliver industry leading water quality – the foundation and core responsibility of any water company.

We've also advanced innovation and have started seeing the benefits from the deployment of our smart network technology, helping us to achieve our target for leakage reduction. In fact, our smart network has enabled us to reduce our leakage by nearly 15% since 2020.

Just as important has been assisting our customers wherever we can through our financial support schemes and priority services register, providing the extra care to those customers that need it. In moments where customers have been affected by burst pipes, I've witnessed great compassion and dedication among our teams to go the extra mile and be there for our customers.

I'm also proud of the operational teams who manage our network 24/7 and who have kept the supplies running throughout adverse weather conditions across the year, ranging from especially dry periods in the summer to a very wet winter. With the ever-changing climate a constant reminder, what I have seen this year has just re-confirmed my confidence in our teams being prepared for any situation.

In addition, our water resources put us in good stead for the summer months ahead, following an especially wet winter, and we are proud to have not implemented a hosepipe ban within our supply area for over a decade.

And while managing all the above I've been consistently impressed by our ability as a team to develop and submit an exciting and ambitious PR24 submission, alongside our visionary long-term delivery strategy. Through the deployment of cutting-edge technology we are planning to balance the needs of a growing population and focus on the environment, while delivering industry leading water quality for decades to come. It's all about the best quality water all day, every day, today, tomorrow and into the future.

With customers in mind I'm not only pleased with what we have done to deliver high-quality water every day, but also the part the team has played in many community outreach programmes, from our education programme to community support, assisting those who require that extra little bit of help.

We've also held more community events and developed more partnerships with local charities and groups than ever before, and this has helped us forge a closer bond with our customers. It has been positive to hear some of the feedback received from these events, which also provides us with valuable customer insight, although we acknowledge there is more to be done here to raise levels of customer satisfaction.

With our smaller size, and being focused on providing drinking water only, we can be agile, fast, risk-taking and innovative. This has allowed us to develop a close relationship with our communities and push the boundaries of technology for the greater good of our customers, water network and the industry as a whole.

The Board has also maintained a close working relationship with our regulator Ofwat and other key stakeholders, such as Consumer Council for Water (CCW), keeping them regularly apprised of important business matters.

It's pleasing to see our recent efforts on debt and equity raising have improved the liquidity and financial resilience of the Company. However there continues to be significant adverse pressure on overall financial results from escalating operational costs due to inflation and meeting performance commitments.

Cost of living and macro-economic conditions have also hit cash collections and therefore have increased our bad debt provision in the year. It's also worth noting no dividends were paid to our shareholders this year.

Meanwhile we've continued to make great strides in enhancing and protecting the biodiversity across all our operational sites, and I was delighted to see us achieve a third Biodiversity Benchmark Award from The Wildlife Trusts – this time for our water treatment works at Bough Beech Reservoir. We remain the only UK water company to hold this prestigious award, which is a fantastic achievement.

In summary, our performance has been good in a very demanding year, and I would like to thank the SES Water team for all they have done and the dedication to the future plans which they exhibit every day. Working in an industry which is rightly scrutinised from all angles requires the workforce to have a great deal of resilience and determination and it is a testament to this team that we continue to be a high-performing Company. Great job team.

Dave Shemmans
Chair
10 July 2024

FOCUSED ON DELIVERING FOR OUR CUSTOMERS AND COMMUNITIES

Ian Cain
Chief Executive Officer

> I'm very proud of how we've performed, achieving 70% of our performance commitments and leading the industry in a number of key areas.

As I reflect on the past year, it's clear the public and political pressure on water companies is intense and there is significant focus on how they adapt to better serve customers and the environment in the future.

With that backdrop in mind, I'm very proud of how we've performed, achieving c70% of our performance commitments and leading the industry in a number of key areas – in particular our water quality, our leakage reduction and continuing to build the resilience in our network.

STRATEGIC REVIEW OUTCOME

As we release our Annual Report, we do so off the back of completing a strategic review of the business which concluded with acquisition of the Company by Pennon Group plc at the start of 2024, which the CMA has now approved.

It's clear Pennon has been impressed by our business, our performance and our people. It has ambitious plans for growth and wants us to be part of that vision for the future as we embrace the challenges the sector faces. It shares our aspirations for our customers and, over time, will create exciting opportunities for our people.

Understandably, strategic reviews can create uncertainty and I am personally thankful for the support of our Board throughout the process. At the heart of this new era for the Company is ensuring we continue to be industry-leading for our customers and the environment. It is clear our strong performance has demonstrated our value, as we proudly move into the Pennon Group.

SUPPORTING OUR CUSTOMERS

Continued levels of high inflation and the cost of living crisis continue to impact our day-to-day operations. This has posed a significant challenge for our customers and I'm all too aware of the impact necessary but tough decisions can have, such as the increase in our annual tariff for household and non-household customers.

Customers rightly expect us to deliver high standards of service and value for money. It was therefore extremely disappointing to experience a rare, severe, mains burst where a small number of customer homes in Gatton Park, Redhill, were flooded.

Our focus was unstinting and fully on looking after those customers impacted and our teams mobilised with commendable efficiency, working around the clock to address the situation head-on, offering steadfast support to our customers.

Our efforts not only mitigated the impact of the situation but also embodied the spirit of solidarity and empathy that defines our Company.

More broadly we continue to provide support for those customers who require extra care, with 2,800 more customers now receiving financial help from our water support programme and a 30% increase in customers now on our Priority Services Register.

INDUSTRY LEADING PERFORMANCE

I was delighted to see that for 2023 our water quality risk index score is likely to place us as the top-ranking company for water quality in the Drinking Water Inspectorate's 2024 report.

We've maintained our industry leading leakage performance, reducing leakage by nearly 15% since 2020, by using our smart network technology and staying at or below the maximum allowed level of leakage every year since the target was first set back in 1999. I was pleased to see BBC South East feature our smart network technology for the first time. It was great to see the dedication of our teams and how they go the extra mile for our customers in action.

> It's clear Pennon has been impressed by our business, our performance and our people.

We've also laid 6.2 kilometres of new water mains in the past year and progressed a number of key mains replacement schemes across our supply area. As a result, we're on track to meet our target for the number of mains repairs in the remaining year of the Asset Management Plan (AMP).

We also completed an important mains replacement scheme on the busy A22 Godstone Road in Purley, directly benefitting 27,000 properties in the Purley area and vastly improving the resilience of the local water supply network. This means we're nearing completion of a 15-year resilience programme we've been progressing since 2010. By 2025, every property across our region will be supplied by more than one treatment works. This was an outstanding achievement amidst an incredibly busy year.

In addition, achieving a third Biodiversity Benchmark Award from The Wildlife Trusts for enhancing and protecting the biodiversity at our Bough Beech site proved to be another standout success for us this year – alongside retaining the awards we already hold at our Elmer and Fetcham Springs sites. I'm proud we remain the only water company to currently hold the award. Furthermore, our vehicle fleet now comprises 43% electric and hybrid vehicles, with the aim to reach 100% by 2030.

We also continue to deliver our commitment to achieve zero serious pollutions, with no category 1 or 2 pollution incidents caused in over 16 years.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

£8,000

Donated towards building a new wildlife centre for the Wildlife Aid Foundation

OUR PARTNERSHIP WITH THE WILDLIFE AID FOUNDATION

The Company has partnered with The Wildlife Aid Foundation (WAF), donating £8,000 towards building a new wildlife centre for the charity.

The Foundation, based in Leatherhead, is dedicated to the rescue, rehabilitation and release of British wildlife and deals with more than 20,000 wildlife-related incidents each year.

As part of SES Water's wider community partnership programme, it has chosen to work with WAF to help build a new centre, which will allow the charity to care for more animals, while also inspiring future generations about the role they can play in conserving British wildlife.

£45m

Programme of investment over a 15-year period from 2010 to 2025

A22 MAINS REPLACEMENT

Back in September 2023 we successfully completed crucial improvement works ahead of schedule, which required the closure of a section of the A22 Godstone Road in Purley.

The work involved digging a 300m trench through the centre of the road to lay the new water main pipe, an operation which required months of extensive prior planning and stakeholder engagement.

As part of our current Business Plan, we have pledged for 100% of properties in our supply area to be supplied by more than one treatment works by 2025, which will reduce the risk of supply failures and help move water from one area to another, more efficiently.

The completion of the works will directly benefit 27,000 properties in the Purley and surrounding areas and vastly improve the resilience of the local water supply network. The project formed part of a £45m programme of investment over a 15-year period from 2010 to 2025.

THE LOOK AHEAD

We submitted our most ambitious plan ever to Ofwat with our PR24 submission totalling an expenditure of £413m. It proposes an increase of £13m per year to reduce leakage, install smart meters for all customers, improve the resilience of our water treatment works and supply network to climate change, and protect and improve our local environment. We've considered a range of future scenarios for climate change, population growth, technology advancement and abstraction reduction, identifying the investment we need to make over the next five years and beyond. We're pleased to have spoken to so many customers across our communities about these plans and hear their feedback.

CONNECTING WITH OUR COMMUNITIES

We've established stronger connections and fostered deeper relationships with key stakeholders. This heightened engagement with our local MPs and local councillors is important for us as it reinforces our dedication to transparency, collaboration, and proactive involvement in local communities.

Building new partnerships and strengthening our relationships with local organisations has been another key priority for us this year and we have continued to play an active role in the communities we serve. The past year has seen us award more than £20,000 to three local charities and support 27 local community events, which has led to more than 1,100 conversations with customers. We've also welcomed more than 3,200 students and teachers to our 'Flow Zone' education centre at Bough Beech reservoir, helping them to learn more about water and how they can use less and help protect the environment. I'm proud that we've opened up our visits to schools outside our supply area ensuring we educate our future customers, too.

As we look ahead, we do so with confidence that we remain industry leading in a number of key performance areas. Our ambitious PR24 plan will further help us deliver on our promises for our customers, as we embark on our new journey with the Pennon Group.

Ian Cain
Chief Executive Officer
10 July 2024

MARKET REVIEW

Scrutiny of the water industry continued this year with increased focus on its performance for customers and the environment, as well as the financial position of some water companies.

The introduction of a new customer-based licence condition has cemented the ongoing transformation in how water companies care for their customers, while the Government set out its environmental expectations for the sector in its Integrated Plan for Water.

The first part of the year was dominated by the production of Business Plans for 2025 to 2030, which were submitted to Ofwat at the start of October 2023. These Business Plans saw record levels of investment proposed by all water companies to meet higher environmental standards, reduce stormwater overflows, tackle leakage and develop new water resources.

MARKET DRIVER

Putting our customers first and providing extra care to those that need it

WHAT'S HAPPENED

- Water industry regulator Ofwat introduced a dedicated condition in the licence of each water company in England and Wales to transform the care they give their customers, particularly those that need extra help with their water and wastewater services. The condition will help to drive up standards and provide support for the full diversity of customer needs. Companies that fail to provide the levels of service expected could be fined up to 10% of their turnover.
- Ofwat produced new guidance on how water companies should support customers that need extra help, which set the requirement for each company to prepare a dedicated vulnerability strategy by June 2024.
- Household and business customers have continued to feel the impact of higher costs of living, despite a fall in inflation. Energy prices increased over the winter period and the UK officially entered recession at the end of 2023 as households cut back on spending.

"A complete change in culture is needed in some companies if we're to improve people's experiences and repair fractured trust and the new customer licence condition can help to focus minds."

Mike Kiel
Interim Chief Executive Officer,
Consumer Council for Water (CCW)

WHAT WE'VE DONE

- We are providing more than 22,000 customers with a discount on their water bill through our Water Support tariff.
- We have increased the number of customers on our Priority Services Register to more than 26,000, helping to ensure those with additional needs receive extra support. This has been boosted by our first data share with UK Power Networks and working with local partners such as the Croydon Energy Project to identify people who require extra financial and non-financial help.
- We have issued a draft vulnerability strategy that sets out how we will support our customers who require extra help. It builds on our strong work to date and maximises the partnerships we have with organisations that help us reach our customers with a wide range of additional needs and provide targeted support.
- We have established new relationships with a range of local community organisations that we are supporting directly with funding and people, including The Lucy Rayner Foundation and the Orpheus Centre. Working with these groups directly, rather than through the Community Foundation for Surrey as we did previously, ensures that we are supporting organisations who share our aims, and can develop more reciprocal ways of working so together we deliver more for our communities.
- Our Extra Care team has attended more than 100 community events in locations including community hubs, foodbanks, assisted living schemes and job centres to promote our support services for customers with additional financial and non-financial needs.
- All new starters now have full vulnerability training before going live on calls and more than 160 of our employees have taken part in dementia friendly training, helping them to recognise the triggers that might mean a customer needs extra help and assessing their individual needs to put in place the right package of support.
- We continue to roll out our customer-wide metering programme with nearly 75% of our customers now on a meter. We are also conducting a smart metering trial with a small number of customers ahead of the wider roll-out of smart meters that will begin next year.

26,000

Number of customers on our Priority Services Register

MARKET DRIVER

Investing for the future – delivering more for people and nature

WHAT'S HAPPENED

- Ofwat began its five-yearly Price Review, known as PR24, following the submission of water company Business Plans in October 2023. Using its final methodology published in December 2022, the economic regulator is assessing the quality and ambition of each water company's plan, what they will deliver for customers and the environment, how it will be funded and at what cost to customers. Draft determinations are expected to be made in July 2024, with final determinations expected in December. This will set the level of investment and customer bills across the 2025 to 2030 period.
- The financial resilience of water companies has been in the spotlight recently and Ofwat has reinforced its expectation that companies will increase their financial resilience, reduce levels of gearing through injections of equity and put restrictions on dividends to shareholders.

"The water industry needs to deliver a step change in investment and performance to clean up our rivers and seas, while also helping to ensure that we can meet the challenge of climate change."

David Black
Chief Executive Officer, Ofwat

WHAT WE'VE DONE

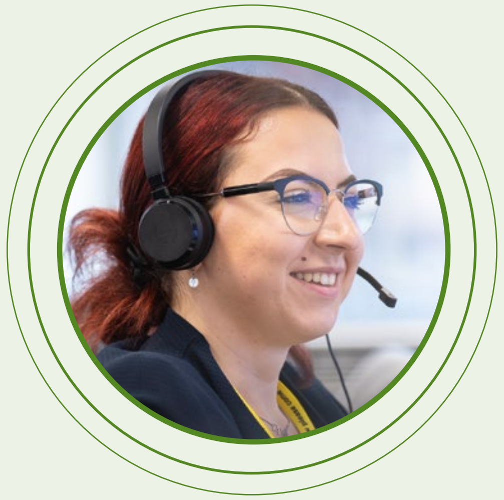
- We submitted our PR24 Business Plan, with a total expenditure of £413m, to Ofwat. It proposes an increase of £13m per year to reduce leakage, install smart meters for all customers, improve the resilience of our water treatment works and supply network to climate change, and protect and improve our local environment. Our plan requires customer bills to rise by around £25 per year, on average over the five-year period, and relies on an equity injection of £35m between 2024/25 and 2026/27.
- Our Business Plan was set in the context of a long-term delivery strategy – a 25-year adaptive strategy that looks ahead and helps us prepare for future uncertainties. We've considered a range of future scenarios for climate change, population growth, technology advancement and abstraction reduction, identifying the investment we need to make over the next five years and beyond.
- We presented our business plan to customers at our second 'Your water, your say' online meeting in November 2023. 120 people attended the session led by our executive team, where more than 70 questions were asked on the day or following the event to help our customers understand how we will use money from bills to improve our service.

£413m

Total expenditure proposed in our PR24 Business Plan

£13m

Proposed increase per year to reduce leakage, install smart meters for all customers, improve resilience of our water treatment works and supply network and protect and improve our local environment



OUR MARKETS AND EMERGING DRIVERS CONTINUED

MARKET DRIVER

Improving the water environment so we supply clean and plentiful water while nature thrives

WHAT'S HAPPENED

- The Government launched its Integrated Plan for Water, which supports the goals of the Environment Act by taking a systematic local, catchment-based approach to transform the management of the whole water system. The Plan reinforced government's commitment to reduce abstraction from chalk streams and restore these sensitive catchments. It also set out a 'Roadmap to Water Efficiency' that included a review of water efficiency standards in building regulations and the roll-out of a mandatory water labelling scheme by 2025.
- The Office of Environmental Protection reported on the Government's progress in meeting its stated environmental ambitions and statutory targets. The Environment Act target for 'Clean and Plentiful Water' showed a mixed picture on progress and was assessed as being "largely off track" in its overall prospects of meeting its long-term ambitions, targets and commitments.
- The Environment Agency, Ofwat and Natural England provided feedback on water companies' draft Water Resources Management Plans (WRMPs) and the regional plans which informed them.

"This ambitious plan marks a step change in how we manage our waters – pulling together all the strands of our complex water system and setting us on a trajectory for a clean and sustainable water supply for future generations. Crucially, it will ensure that we secure clean water from a healthy environment, where chalk streams are restored and entire catchments – from source to sea – are the focal point."

Rebecca Pow MP
Water Minister, launching the Integrated Plan for Water

WHAT WE'VE DONE

- We submitted our next Water Industry National Environment Programme (WINEP) to the Environment Agency and incorporated it into our PR24 Business Plan. It includes more than £5m of investment to protect the environment, including preventing deterioration of our water sources from pollution, protecting species and managing our bio-security, and investigating which sources we should reduce our abstractions from.
- We've achieved the Wildlife Trusts Biodiversity Benchmark Award at Bough Beech Water Treatment Works, making it the third of our sites to receive this important accreditation. Our Fetcham Springs and Elmer sites both retained their awards.
- We produced our revised draft WRMP that responded to the feedback we received from the Environment Agency, Ofwat, Natural England and more than 100 customers and stakeholders during our public consultation. Our WRMP, which is aligned with Water Resources South East's regional plan, sets out how we will continue to provide reliable water supplies and increase our resilience to drought as the climate changes and population grows. It also plans to reduce abstractions from existing sources by up to 30 million litres of water per day by 2050, to help protect sensitive habitats, particularly in our chalk stream catchments. Our long-term strategy is focused on reducing demand for water by more than halving leakage levels and helping our household and business customers use less. Over the last year we have continued to make progress in both these areas.
- We continue to be fully compliant with our environmental licences and consents and have had no category 1 or category 2 pollutions for more than 16 years.
- We've welcomed more than 3,200 students and teachers to our Flow Zone education centre at Bough Beech reservoir helping them to learn more about water and how they can use less and help protect the environment. We've opened up our visits to schools outside our supply area as we think it's important that we educate those who could become our future customers, too.

MARKET DRIVER

Innovating to improve our performance

WHAT'S HAPPENED

- Ofwat announced the winners of its third Water Breakthrough Challenge, which saw £40m of funding made available for 16 innovative solutions put forward by UK water companies and their partners. The fourth round of the challenge opened for entries.
- Ten innovators from outside the sector have won funding in Ofwat's first Water Discovery Challenge. The competition, worth £4.5m, is part of the Ofwat Innovation Fund and was exclusively for non-water sector parties to secure funding to help solve the biggest industry challenges.
- Ofwat conducted an initial consultation on its dedicated Water Efficiency Fund for AMP 8 in July 2023. The £100m fund is being set up to stimulate a measurable reduction in demand across household and business customers. It also consulted on its Innovation Fund for 2025 to 2030, proposing a doubling of the fund to £400m.

"This fund will enable the sector to accelerate the sort of collaborative and innovative work that is necessary to make progress in this area. By bringing fresh ideas and existing expertise together, we can achieve more resilient supplies, improve environmental protection, and deliver better value for customers."

Paul Hickey
Senior Director,
Ofwat launching the Water Efficiency Fund consultation

WHAT WE'VE DONE

- Our innovative work that uses no-dig technology to assess the health of our underground pipes won the Asset Management Initiative award at the annual Water Industry Awards. This groundbreaking project, the first of its kind in the UK water sector, is helping to inform our water main replacement programme so we target those pipes most likely to leak and burst, while minimising disruption to our customers and communities.
- We received £224,000 from the third Ofwat Water Breakthrough Challenge for our project to design a universal access point for water. Its purpose is to provide a standardised entry point on pressurised water pipes to help companies tackle leakage and better manage their underground pipes.
- We reduced our leakage by nearly 15% since 2020, using our smart network AI technology to find and fix leaks faster than ever before.

£224,000

Funding we received from third Ofwat Water Breakthrough Challenge for universal access point for water

- We're contributing to a national project with companies, regulators, government and subject matter experts to mainstreaming nature-based solutions, challenges facing the use of nature-based solutions across regulation and policy, total value frameworks and regularisation of these solutions across industries. This project is being facilitated by regional Rivers Trust colleagues and we are presenting several areas to pilot the proposals borne from the phased workstreams.
- Our Innovation Manager continues to lead the industry's leakage research agenda and has compiled a 'leakage innovation heatmap' that brings together all research programmes currently being undertaken across the sector focused on leakage reduction to aid co-ordination, share learning and foster collaboration.
- Initiated relationships with key stakeholders to collaborate on our technologies and bring together investment to derive greater value. This includes relationships with local stakeholders, county and district councils and key businesses, such as Gatwick Airport.

CREATING LONG-TERM VALUE

OUR PURPOSE

Harnessing the potential of water to enhance nature and improve lives.

We take pride in being a local company with a long heritage, and our customers have told us they value their water being supplied by a local company whose employees have comprehensive knowledge of our supply area. To do this, our business model is reliant on a number of key resources and relationships that enable us to meet our obligations.

We are committed to protecting the natural environment, for the benefit of local people and wildlife.

We've partnered with The Great British School Trip to help fund travel costs for schools to attend our Flow Zone education centre.

INPUTS

Water resources
Managing our water resources through our forward-looking, 50-year Water Resources Management Plan (WRMP) and protecting and enhancing the environment.

Employees
Developing and motivating our 345 employees, incentivising them to deliver a high-quality customer experience at every touchpoint with consumers of our services.

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

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

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

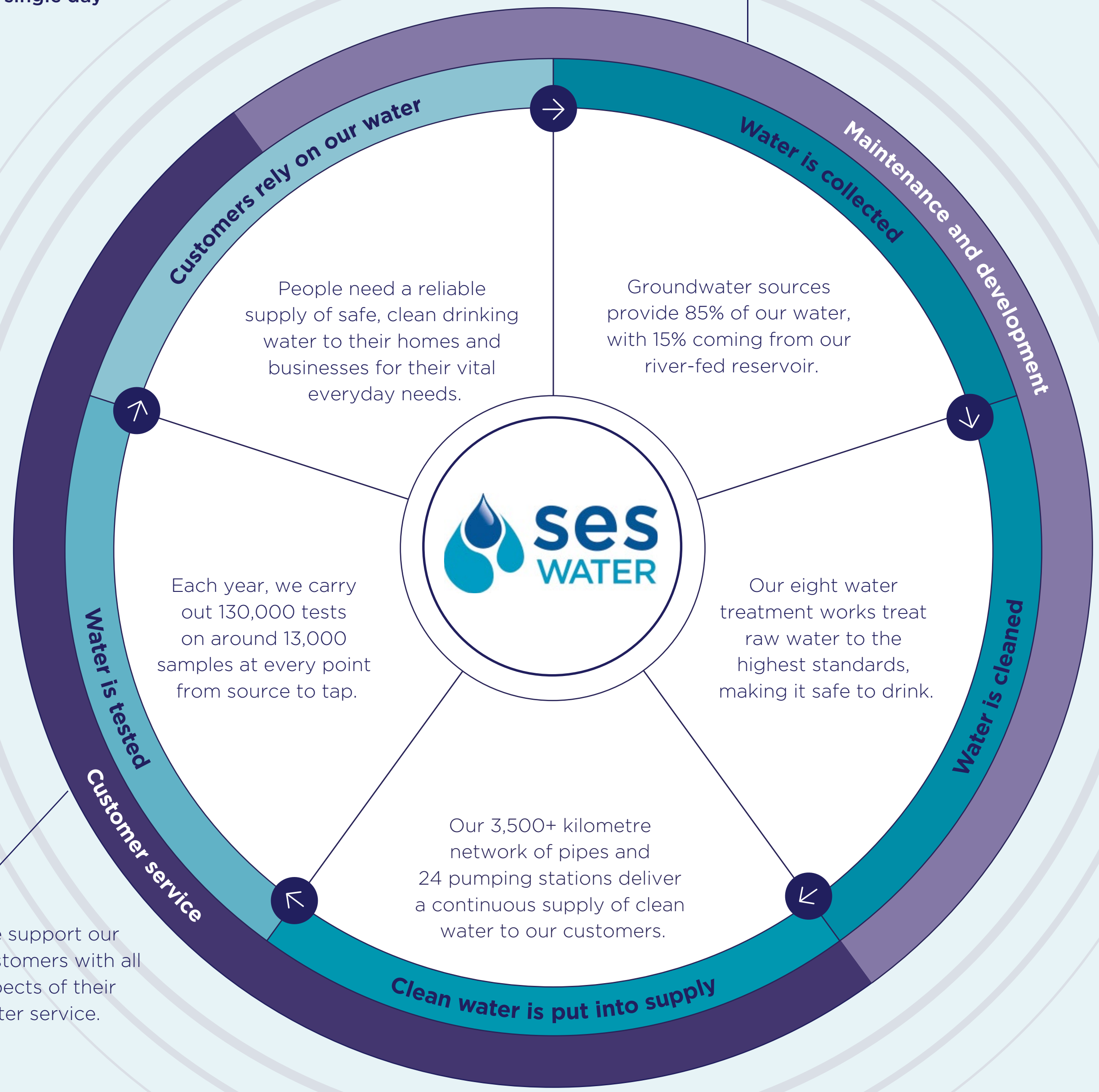
Financing
Maintaining a robust capital structure, long-term cost-effective debt, shareholder support and an appropriate credit rating.

The Next Generation
Taking pride educating the youth about the values of water, the environment and protecting our resources.

160m

Litres average supply every single day

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



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

OUTCOMES

The value we share between our stakeholders

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

Employees
We invest in our people through new training and development opportunities, fair pay, 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 delivering an industry leading education programme for more schools, young people, businesses and community groups.

Regulators
We have regular consultation and engagement with our regulators, including Ofwat, the Drinking Water Inspectorate (DWI) and the Environment Agency, to balance and deliver their expectations.

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

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

X3
Triple the rate of sector-wide leakage reduction by 2030.

NET ZERO
Achieve net zero operational carbon emissions for the sector.

You can read more about our Carbon transition on pages 48 to 51.

5%
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.

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

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

OUR PURPOSE

We believe it's not just our duty to supply water, but to use it as a force for local good. That's why we are doing all we can to support the communities we serve, while protecting and enhancing our local environment.

Our purpose influences everything we do, underpinning what we do and how we do it, both now and in the future. That's why we're doing all we can to harness the potential of water to enhance nature and improve lives.

Our purpose is delivered through decisive action. It puts our customers and the environment at the heart of our decision-making, ensuring we create solutions for better lives.

We want to bring benefits to the communities we serve, from being a diverse and inclusive place to work, to eradicating water poverty. We are inspiring the next generation through our education programme, helping to create water-conscious consumers of the future.

And all of this is being achieved while continuing to do what we've always done – delivering an essential, resilient service, of the highest quality, all day, every day.

OUR LONG-TERM GOALS:

Provide our customers with high-quality water from sustainable sources.

Help customers reduce their water footprint and charge a fair, affordable price for what they use.

Deliver a resilient water supply from source to tap and minimise wastage.

Improve the environment and have a positive impact on our local area.

OUR STRATEGY IN ACTION THIS YEAR

ENHANCING NATURE

- Reduced leaks by nearly 15% since 2020 with the UK's first intelligent water network.
- Removed over 60,000 plastic bottles from local community events including Run Reigate, Run Gatwick, the East Surrey YMCA Fun Run, Pride in Surrey, and Feasty Fest by supplying water.
- Reduced our carbon footprint by 3.5% in the past year (34% since 2019) and increased the number of electric and hybrid vehicles in our fleet to 43%.
- Achieved a third Biodiversity Benchmark with The Wildlife Trusts for our land management to enhance organic habitats at Bough Beech.
- Delivered a water quality performance which is the best in the industry.
- Hosted a soil health event and funded herbal ley agreements as part of our catchment management work.
- Supported the establishment of the Lower Eden Farm Cluster.
- Provided training and equipment to local groups, such as River Mole River Watch, to assist with our environmental monitoring.
- Supported nature-based learning at the Bough Beech nature reserve.
- Encouraged local community groups to improve their water efficiency by providing funding through our Every Drop Counts Community Fund.
- Implemented a car share scheme for colleagues and provided new, secure cycle storage to enhance our Cycle to Work scheme.

IMPROVING LIVES:

- Helped over 22,000 vulnerable customers via Water Support schemes.
- Welcomed more than 3,200 teachers and pupils to Flow Zone (our Education Centre).
- Took part in local job fairs and schools/college career events to continue to raise our profile as part of our early careers and social mobility activity.
- Donated £20,000 to three local charities (The Lucy Rayner Foundation, The Wildlife Aid Foundation, and The Orpheus Centre) and built meaningful partnerships with each organisation. In addition, we have donated a further £4,250 through fundraising.
- 153 colleagues have taken part in Give A Day, supporting a wide range of local charities including Stripey Stork, Community Fridge, The Wildlife Aid Foundation, The Orpheus Centre, The Conservation Volunteers, Crossroads Care, and MHA.
- 166 colleagues have completed Dementia Friendly training, and we are well on our way to becoming a Dementia Friendly Company.
- Worked with The Orpheus Centre to run an accessibility audit with the aim of becoming a disability confident employer. Outcomes from the audit will be actioned in the year ahead.
- Held lunch and learn sessions for International Women's Day and with organisations including Pride in Surrey, The Lucy Rayner Foundation and 'Titanium Talks' to help keep health and safety top of mind.
- Provided driver distraction training to 89% of our driver population to support the health and safety of colleagues while driving a Company or private vehicle.

OUR FIVE PLEDGES

> We all need to use water wisely and we're committed to helping our customers do this by providing information, support and incentives.

Our Business Plan for 2020 to 2025 has one simple objective – to deliver more of what matters to our customers. It was built around our customers' priorities through an extensive engagement programme and led us to making five pledges to improve our service.

We've considered how the world around us is changing and made sure our plan is fit for the future. From climate change and population growth to smart technology, our pledges set out how we aim to transform our service and how we deliver it to our customers.

By delivering on our pledges, we'll not only provide a great service, but we'll contribute more to society. However, successful delivery is not entirely in our hands. Water is a precious resource and we live in an area where it's coming under increasing pressure because of the changing climate and higher demand. We all need to use water wisely and we're committed to helping our customers do this by providing information, support and incentives.

This year we have achieved 70% of our performance commitments and are working hard to improve in the areas where we missed our target.

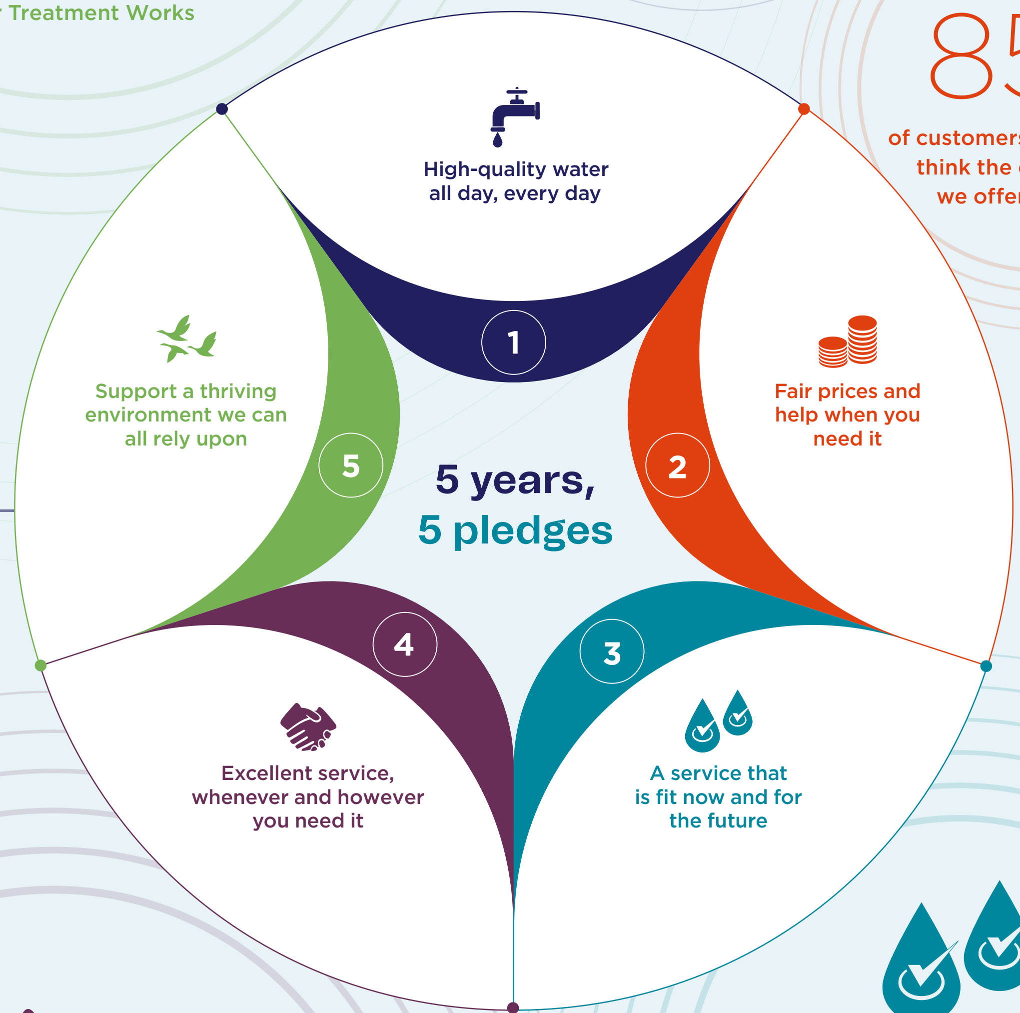
3

Achieved our third Biodiversity Benchmark Award from The Wildlife Trusts for part of our Bough Beech Water Treatment Works

We've determined our CRI score to be 0.01, which is likely to place us as the top-ranking company when the DWI publishes its Annual Report in July 2024

85%

of customers on our support think the extra services we offer are helpful



91%

Number of customer contacts resolved first time

6.2km

of new water main laid in the past year

WE'LL PROVIDE YOU WITH HIGH-QUALITY WATER ALL DAY, EVERY DAY

OUR PLEDGE IN ACTION

Nothing is more important to us than keeping our customers supplied with safe, clean water

HIGHLIGHTS

- For 2023, we reported a water quality risk index score of 0.01. This is likely to place us as industry-leading for water quality in the Drinking Water Inspectorate's (DWI) 2024 report. We had five small water quality events, which led us to reporting a low event risk index score of 5.9. This is likely to place us as one of the top-ranking companies for management of water quality events in the 2024 report
- We've continued to take actions to minimise the number of customers contacting us about the taste, smell or appearance of their water. Our annual performance is likely to continue to be significantly better than the industry average
- Our performance for supply interruptions continues to be excellent and we continue to work hard to minimise risk of interruption.

KPIs

Target met ✓ Target not met ✗

WATER QUALITY – DWI COMPLIANCE RISK INDEX (CRI) ✓

score

WHY DO WE MEASURE THIS?

All water companies in the UK are measured against the DWI's CRI to ensure our water is of the highest quality.

PERFORMANCE

We've determined our CRI score to be 0.01, which is likely to place us as industry-leading when the DWI publishes its Annual Report in July 2024.

2024	0.01
2023	0.01

MAINS REPAIRS ✗

number/1,000 kilometres

WHY DO WE MEASURE THIS?

We want our network to be as resilient as possible, which is why we have a programme of mains replacement schemes across our supply area.

PERFORMANCE

While slightly over target, the number of bursts over the year has significantly reduced, demonstrating the underlying resilience of our network to again deliver top quartile industry performance.

2024	63.8
2023	101.5

WATER SOFTENING ✗

number of periods exceeding hardness target (mg/l)

WHY DO WE MEASURE THIS?

We are unique in the industry in having a legal obligation to soften the groundwater we treat.

PERFORMANCE

A better performance than last year still resulted in missing our target. Work continues to improve resilience at two of our five softening sites.

2024	4.2
2023	5.6

SUPPLY INTERRUPTIONS ✓

hours:minutes:seconds/property/year

WHY DO WE MEASURE THIS?

Although some planned interruptions to supply are unavoidable, we are always working to improve the long-term resilience of our supply network.

PERFORMANCE

Our performance this year continues to be excellent, again resulting in a financial reward from Ofwat. We continue to work hard to minimise risk of interruption.

2024	0:03:36
2023	0:03:51

TASTE, ODOUR AND DISCOLOURATION CONTACTS ✗

number per 1,000 customers

WHY DO WE MEASURE THIS?

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.

PERFORMANCE

We recorded 0.58 contacts per 1,000 customers this year, which is above our target limit of 0.50 so we will receive a financial penalty from Ofwat, but our performance is expected to be significantly better than the industry average.

2024	0.58
2023	0.64

WE'LL PROVIDE YOUR SERVICE AT A FAIR PRICE AND OFFER HELP WHEN YOU NEED IT

OUR PLEDGE IN ACTION

This year, we have been able to support our customers to pay their bills and provided financial support options when they have needed it the most.

HIGHLIGHTS

- Our average household bill for 2023/24 equated to around 60 pence a day
- More than 22,000 customers are benefitting from our Water Support scheme, which provides a 50% bill reduction to eligible people
- We continue to work in the community attending community hubs, foodbanks, assisted living schemes, job centres and advice cafes to promote our services and have attended more than 100 local events this year with our Extra Care team
- 9.3% of our customers are on our Priority Services Register, which provides extra support to those who have health, access or communication needs
- More than 80% of our customers think the extra services we offer are helpful
- We reduced the volume of connected properties with no billing account to just 2.38% on average across the year, meaning more customers are paying for the water they are using
- We have data sharing in place with UK Power Networks, as well as Southern Water, which has helped us identify customers who need extra help from us.

KPIs

Target met ✓ Target not met ✗

SUPPORTING CUSTOMERS IN FINANCIAL HARDSHIP ✓

number

WHY DO WE MEASURE THIS?

We continue to welcome more customers, who are struggling financially, onto our Water Support Scheme, which provides a 50% bill reduction to eligible people.

PERFORMANCE

Approximately 2,800 more customers now receiving financial help from our water support programme.

2024	22,229
2023	19,476

CUSTOMERS ON OUR PRIORITY SERVICES REGISTER ✓

%

WHY DO WE MEASURE THIS?

Our priority services register provides extra support to customers who have health, access or communication needs, and helps us tailor the help we can offer.

PERFORMANCE

A 30% increase in customers now on PSR as a result of improved marketing, community events and data sharing.

2024	9.3%
2023	7.0%

VULNERABLE SUPPORT SCHEME HELPFULNESS ✓

%

WHY DO WE MEASURE THIS?

It is important we are tailoring our support in the right way to help those who need it.

PERFORMANCE

Stronger scheme helpfulness with a focus on improved customer understanding enabling tailored marketing and the introduction of stronger trusted partnerships with local community groups.

2024	85.1%
2023	81%

VOID PROPERTIES ✓

%

WHY DO WE MEASURE THIS?

We have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water.

PERFORMANCE

Improved rate of billed properties as a result of an enhanced void investigation and billing programme.

2024	2.38%
2023	2.43%

VULNERABLE SUPPORT SCHEME AWARENESS ✗

%

WHY DO WE MEASURE THIS?

Promotion of our support schemes is important so people are aware of the financial help available to them.

PERFORMANCE

Improved awareness across customer base with stronger community partnerships built. However, we haven't met our target.

2024	39.5%
2023	38.0%

PROPORTION OF CUSTOMERS WHO BELIEVE THEIR BILL IS NOT GOOD VALUE ✓

% dissatisfied

WHY DO WE MEASURE THIS?

It is important our customers feel they are getting good value for the service they receive from us.

PERFORMANCE

A challenging year for value for money perception impacted by wider socio-economic, geo-political factors as well as a growing negative industry narrative.

2024	7.2%
2023	5.0%

WE'LL PROVIDE YOU WITH A SERVICE THAT IS FIT NOW AND FOR THE FUTURE

OUR PLEDGE IN ACTION

We target our investment in our infrastructure every year where it is needed most and are using innovative technology to provide a better service to our customers.

HIGHLIGHTS

- We have stayed at or below the maximum allowed level of leakage every year since the target was first set more than 20 years ago and have once again met our leakage reduction target, which is industry leading
- We have laid 6.2 kilometres of new water main in the past year and progressed a number of key mains replacement schemes across our supply area. As a result we are on track to meet our target for the number of mains repairs in the remaining year of the Asset Management Plan (AMP)
- We completed an important mains replacement scheme on the busy A22 Godstone Road in Purley, directly benefitting 27,000 properties in the Purley area and vastly improving the resilience of the local water supply network. This also means we're nearing completion of a 15-year resilience programme we've been progressing since 2010. By 2025, every property across our region will be supplied by more than one treatment works if, due to operational challenges, this is needed. Other key mains replacement schemes have been completed this year in areas such as Dorking, Cobham, Leatherhead and Fetcham
- Our ongoing focus on operating, maintaining and investing in our water treatment works means we have again achieved our unplanned outage target.

KPIs

Target met ✓ Target not met ✗

LEAKAGE REDUCTION ✓

Ml/day

WHY DO WE MEASURE THIS?

Managing leakage is one of our customers' top priorities and a key focus for us to reduce it.

PERFORMANCE

Our focus on improving operational practices and embedding innovation continues to deliver positive results with leakage reduced by nearly 15% from four years ago*.

2024	20.7
2023	22.8

RISK OF SEVERE RESTRICTIONS IN A DROUGHT ✓

% customers

WHY DO WE MEASURE THIS?

We operate in a water-stressed region, therefore we need to monitor our water resources closely.

PERFORMANCE

Our resilience to drought, during a year of comparative recovery from the challenges of 2022, continues to be strong.

2024	0.0
2023	0.0

UNPLANNED OUTAGES AT TREATMENT WORKS ✓

%

WHY DO WE MEASURE THIS?

There are times when unexpected incidents reduce the performance of our water treatment works or require us to take them out of service for maintenance.

PERFORMANCE

Improved for the second year running (and remaining as upper quartile performance) our ongoing focus on operating, maintaining and investing in our water treatment works continues to meet our unplanned outage target.

2024	0.81%
2023	0.93%

RISK OF SUPPLY FAILURES ✓

% of properties connected to more than one treatment works

WHY DO WE MEASURE THIS?

By 2025, we plan for every property to be supplied by more than one treatment works if needed.

PERFORMANCE

Ongoing preparatory works for the final phase of our resilience programme progressed well in the year. We are on target to hit 100% resilience by March 2025.

2024	81%
2023	81%

* We are continuing to conduct work – overseen by Ofwat – to ensure our water balance reporting is fully compliant with all regulatory guidelines. While we are confident in the accuracy of our leakage reporting, we have agreed with Ofwat that we will not seek to apply for any outperformance payments associated with our leakage performance until this work is concluded.

WE'LL PROVIDE EXCELLENT SERVICE, WHENEVER AND HOWEVER YOU NEED IT

OUR PLEDGE IN ACTION

We want the most satisfied customers in the country and to get there we are fundamentally changing a lot of what we do and significantly investing in our people, our policies and the systems they use.

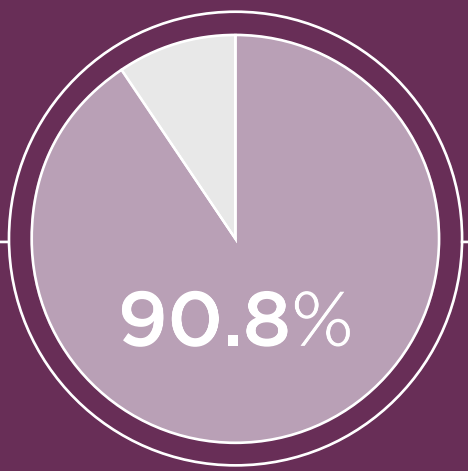
HIGHLIGHTS

- We're currently 14th in the C-MeX ranking, which is below where we want to be. We continue to work hard to make sure we are meeting customer expectations and improving the experience they receive. We will do so by continually investing in our systems, people and processes
- Our high first call resolution levels have been maintained
- We have re-launched a clearer customer journey for those being fitted with a water meter, following direct customer feedback
- We have conducted customer surveys following local bursts to help us learn and improve our future actions for customers during incidents
- We are making sure our customer data is as up to date as possible, by checking with customers during each interaction
- We actively seek to learn from others and embrace independent challenge working closely with Ofwat, Consumer Council for Water (CCW), and Water UK, and build relationships with other water companies
- We remain committed to employing a Customer Scrutiny Panel, a relationship and source of feedback we value immensely.

KPIs

Target met ✓ Target not met ✗

	C-MEX (INDUSTRY MEASURE OF CUSTOMER SATISFACTION) score ✗	FIRST CONTACT RESOLUTION % ✓	D-MEX (INDUSTRY MEASURE OF DEVELOPER SATISFACTION) score ✗
WHY DO WE MEASURE THIS?	C-MeX is the industry metric for measuring customer satisfaction and experience across all companies.	It is important that our customers receive an excellent, tailored resolution every time they contact us.	D-MeX is the industry metric for measuring developer satisfaction and experience across all companies.
PERFORMANCE	Our performance remains below industry average although we continue to be determined to improve our customers' satisfaction with our services.	High first call resolution levels maintained.	We expect to complete the year in 17th place, as last year, and continue to work hard to embed improvements in service and fully understand and deliver against developers' changing needs
2024	72.45%	90.8%	86.97%
2023	76.03	85.1%	84.91%



Number of customer contacts resolved first time

WE'LL SUPPORT A THRIVING ENVIRONMENT WE CAN ALL RELY ON

OUR PLEDGE IN ACTION

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

HIGHLIGHTS

- We achieved our third Biodiversity Benchmark Award from The Wildlife Trusts for part of our Bough Beech water treatment works, while retaining the awards we already have at our Elmer and Fetcham Springs sites. We are the only water company to currently hold the accreditation
- We have reduced our carbon footprint by 3.5% in the last year alone
- Three quarters of our customers are already metered and we are looking to provide meters for 90% of our customers by March 2025
- Our vehicle fleet now comprises 43% electric and hybrid vehicles, with each electric car helping to save 2-3 tonnes of CO_2e per year, as well as reducing the impact on local air quality
- We have continued our partnership with Run Series to support both Run Gatwick and Run Reigate as the events' official water provider, avoiding more than 48,000 single-use plastic water bottles from being given out at each event
- We've also supplied water at Feasty Fest, Pride In Surrey and the YMCA Fun Run
- We've continued to work with Bore Place, a charity local to our Bough Beech site, and a number of other partners to assess opportunity to develop biodiversity net gain on a landscape scale.

KPIs

Target met ✓ Target not met ✗

CONSUMPTION ✗

litres consumed per person per day

WHY DO WE MEASURE THIS?

We operate in a region classified as being in serious water stress, which is why we have a target to reduce the amount of water each customer in our supply area uses per day.

PERFORMANCE

Less challenging weather conditions in the last year have helped offset the drought impact from 2022. Coupled with progression of our metering programme and water efficiency work, our PCC is now on a sustained downward trend but remains above our target.

2024	146.4
2023	150.8

GREENHOUSE GAS EMISSIONS ✓

kgCO_2e/megalitre

WHY DO WE MEASURE THIS?

We are committed to achieving net zero operational carbon emissions.

PERFORMANCE

The progression of our net zero carbon plan has seen further reductions in greenhouse gases this year through ongoing energy efficiency and switching of fleet to pure electric vehicles and heating to non-fossil fuel alternatives.

2024	40.3
2023	41.0

ABSTRACTION INCENTIVE MECHANISM ✓

average megalitres reduction

WHY DO WE MEASURE THIS?

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

PERFORMANCE

We remain compliant with our AIM target, focused on reducing abstraction in chalk catchments during sensitive times of year.

2024	Compliant
2023	Compliant

RIVER-BASED IMPROVEMENT – DELIVERY OF WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME (WINEP) ✓

number of schemes

WHY DO WE MEASURE THIS?

We are committed to improving the ecology and the quality of water in rivers through delivery of WINEP.

PERFORMANCE

We continue to deliver our programme of work agreed with the Environment Agency (EA). In June 2023, as a result of the Ofwat and EA plan realigning, we became fully compliant with this performance commitment.

2024	7
2023	6

POLLUTION INCIDENTS ✓

number of category 1 and 2 incidents

WHY DO WE MEASURE THIS?

We are committed to not harming the environment.

PERFORMANCE

We continue to deliver our commitment to creating zero serious pollution. No category 1 or 2 pollution incidents have been caused by us in over 16 years.

2024	0
2023	0

LAND-BASED IMPROVEMENT – BIODIVERSITY ✓

number of sites awarded benchmark

WHY DO WE MEASURE THIS?

We are committed to protecting and improving the biodiversity at all of our sites.

PERFORMANCE

We are delighted to have achieved accreditation at Bough Beech – our third and final target site for this Asset Management Plan (AMP). This collectively paves the way for our Biodiversity Net Gain Strategy from 2025.

2024	3
2023	2

DELIVERING MORE VALUE FOR THE PUBLIC

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

We take an active part in improving the communities we're privileged to serve, including playing a full role in tackling wide social and environmental challenges. In the past year we've partnered and help run 27 community events as well as 153 colleagues having taken part in Give A Day to support a wide range of local charities.

"I'm sure you know that we are very appreciative of all the support you have given us, not just in the monetary sense but your willingness and generosity to support and promote the Charity to deliver a better service for all those involved. It is an absolute fact The Lucy Rayner Foundation would not be able to offer the services we do without the committed support that people like you provide us."

Jenny Rayner
CEO, The Lucy Rayner Foundation

INDUSTRY REFLECTION

The industry wants to do more to meet the high expectations which rightly come with running a vital public service for the public good. This is why we're all working collaboratively to achieve the industry Public Interest Commitments, which include five challenging goals:

- Triple the rate of sector-wide leakage reduction by 2030
- Make bills affordable for all households with water and sewerage bills, as a minimum, no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty
- Achieve net zero carbon emissions for operational activities for the sector
- 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

"Thank you so much to all the team at SES Water – and what a fantastic team you are! I cannot begin to tell you our appreciation of you all and how you got stuck into the roles you were given on the day, we couldn't have done it without you. We hope you loved being involved as much as we loved having you there! We look forward to working with you again in the future."

Megan Robson
Events Fundraiser, The Orpheus Centre

DOING MORE FOR OUR COMMUNITIES

In the past year, we have awarded more than £20,000 to three local charities, all of whom have been chosen on the basis of building meaningful long-term partnerships. Each of them also closely relates to our purpose of improving lives and enhancing nature.

These charities are: The Wildlife Aid Foundation in Leatherhead, The Lucy Rayner Foundation in Redhill and The Orpheus Centre in Godstone.

We have raised an additional £4,250 through fundraising for campaigns such as Macmillan coffee mornings, Save The Children and Movember.

Separately we have funded more than £4,000 in the past year to local water efficiency projects through our Every Drop Counts community fund.

The money from this fund helps projects buy water butts, so gardens and plants can be watered with rainwater, right through to new equipment to help children and adults learn about different ways to save water.

We've also supported 27 local community events, including: Run Gatwick, Run Reigate, YMCA Fun Run, Orphest, EcoFair, Feasty Fest and Pride In Surrey. Across all our events we've recorded more than 1,100 conversations with customers.

At the three running events, we provided water to 20,000 spectators and runners, while also preventing the use of 48,000 single-use plastic bottles.

More than 150 of our colleagues have also volunteered a day of their time, through the Company 'Give A Day' scheme, towards helping a local charity or community group. These events have included:

- Tree planting with Bore Place
- Hedgerow building with The Surrey Wildlife Trust
- The Great SES Water litter pick, which raised £600 for The Wildlife Aid Foundation
- Packing and delivering Christmas presents for Stripey Stork, a baby bank
- Fundraising for Crossroads Care, which supports unpaid carers from 6-80 year olds
- Painting a playground at Welcare, which supports under-privileged and minority ethnic background families
- Supporting the MHA by helping to host its Valentines and Coronation party and running a bingo session for the elderly community
- Supporting the Community Fridge by cooking a lunch for 37 carers and providing presents.

“Our sincere thanks for your continued and generous support of the work we do. We are so grateful, and SES Water is just incredible, getting behind our campaigns throughout the year. It is very much appreciated.”

Sarah Medcraft
Corporate Partnerships Manager, Stripey Stork

EDUCATING THE NEXT GENERATION OF WATER USERS

During 2023/24, we reached a total of 4,611 people with our education programme and, within that total, welcomed 3,260 students and teachers to our Flow Zone Education Centre.

We’ve also opened up Flow Zone to schools outside of our supply area and have delivered in-person talks to more than 1,351 pupils and adults.

For the first time we also attended Eco Summit events, which brought teachers together from across Surrey with a focus on environmental education. We came away with more than 50 enquiries for our Education programme. We’ve also undertaken a roadshow visiting more than 80 schools across our supply area and in neighbouring communities.

“Thank you very much for an excellent day at Bough Beech. The children loved the day and learned such a lot!”

St John’s School
Redhill

“Lisa was amazing. She kept all the children fully engaged with her enthusiasm – excellent visit, slick delivery, super informative trip.”

St Mary’s Primary School
Oxted

“The children really enjoyed their visit and the parents who accompanied us were also really impressed. We had our Deputy with us, and she said it was one of the best school trips she had been on!”

Regina Coeli School

“Just wanted to say a massive thank you to the lovely colleagues at SES Water.

It was a total pleasure to have you kindly help us and more importantly you brought sunshine and joy to our wonderful members. Same time next year?!”

Julia Nye
Community Co-ordinator,
MHA Communities East Surrey

“We’re delighted and proud to be working in partnership with SES Water. With our shared values and goals, we’re excited about the potential this partnership can bring to the community and Surrey’s wildlife. This collaboration will provide essential support for Wildlife Aid to develop a new Wildlife Aid Centre, while continuing to be recognised as one of the UK’s most respected wildlife rescue centres. Our partnership with SES Water will create the foundation for us to do even more.”

Simon Cowell
CEO, Wildlife Aid Foundation

OUR WORK TOUCHES MANY PEOPLE AND ORGANISATIONS

In addition to the 750,000 customers who rely on our services, we have many stakeholders who can be affected by our work or whose actions impact us.

Understanding the needs of our different stakeholders and engaging with them constructively is very important and helps us to make better decisions. Particularly as the challenges we face increasingly require us to work collaboratively with others so that together we achieve more for the environment and society.

Building new partnerships and strengthening our relationships with local organisations has been a key priority for us this year, and we have continued to play an active role in the communities we serve. We are working closely with partners whose work aligns with our purpose, to harness the potential of water to enhance nature and improve lives.

Our Customer Scrutiny Panel (CSP) and Environmental Scrutiny Panel (ESP) have helped to challenge our plans and how we deliver them, encouraging us to learn from others and forge new alliances.

We've also listened carefully to our customers and those that represent them to make sure our Business Plan for 2025 to 2030 meets their needs and we invest in what matters most.

Striking the right balance between the expectations of our different stakeholders, including our shareholders, is important. Our Board brings our shareholders together with senior management and non-executive directors who provide independent expertise and insights to inform our decision-making. We ensure the voices of our customers and stakeholders are heard through regular attendance by our CSP and ESP chairs and other stakeholder representatives at our Board meetings. More about our Board structure and governance can be found on pages 74 to 86.

OUR CUSTOMERS

What they expect

- Supply high-quality, wholesome water
- Reliable and resilient water supplies for now and in the future
- Reduce how much water is leaked from our network of pipes
- Play an active role in protecting and improving the environment
- Preparing for climate change and other factors that could impact on our service
- Making bills fair and affordable, and provide help to those who have financial difficulties
- Provide high-quality customer service with extra support for customers who have additional needs, whether temporary or long term
- Play an active role in our local communities through education programmes and by supporting local projects that benefit the environment and society.

How we talk and listen to each other

- Contact customers via email
- 'MyAccount' customer portal
- Social media channels
- Community Support Officers who visit customers at home
- Voice of the Customer programme that captures customer feedback
- 'Talk on Water' online community of over 300 customers
- Education programme which engages children and young people about the importance and value of water
- Dedicated research with a broad range of customers
- 'Your Water, Your Say' meeting that we will continue to hold annually
- 'Monday Blues' listening to any negative customer sentiment
- Community events
- Customer Scrutiny Panel.

How we work for the benefit of our customers

- By delivering the pledges set out in our Business Plan for 2020 to 2025, which include:
  - Reducing leakage by 15%
  - Providing 25,000 customers with financial challenges a 50% reduction on their bill
  - Giving all our customers a free water meter so they only pay for what they use and helping them to reduce their water use
  - Being able to provide all our customers with an alternative source of water should we experience a water supply problem
  - Using smart technology and Artificial Intelligence to help us reduce water supply interruptions, fix network problems more quickly and help identify customers who need extra help during such events
  - Offering excellent service through more channels to meet our customers' needs
  - Providing extra support to more customers who need priority services and working with local energy providers to share information that helps identify those who need extra support.
- By developing a Business Plan for 2025 to 2030 that continues to meet our customers' needs and priorities at a price that is affordable.

OUR EMPLOYEES

What they expect

- That we provide them with good opportunities for training and developing new skills
- That we pay them fairly, with good performance in their job being recognised in their annual salary
- That we work to recruit and hold on to high-quality employees
- That we play an active role in the communities we serve, in our broader role as a responsible local business
- That we provide a working environment that's healthy and safe, and which welcomes and values everyone.

How we talk and listen to each other

- Through our regular employee engagement surveys, to find out what's working well and where we may need to improve
- By having a dedicated Board member who is responsible for employee engagement
- By making sure all employees have regular opportunities to see and talk to our senior leaders such as our executive team
- Through a structured programme for assessing how employees are performing and how people can be developed
- Through an ongoing programme of internal communications, and regular one-to-one meetings for each employee and their line manager
- Through regular 'Open Forum' meetings, hosted by our executive team members for all employees to attend.

How we work for the benefit of our customers

- Unlocking the potential of our people by investing in their development and leadership capability through skills development workshops, professional development, mentoring and job shadowing
- Making work life easier for our employees through our HR digital transformation programme introducing new systems and processes
- Through our comprehensive wellbeing offering, including cash plan, Employee Assistance Plan, discounted gym membership, Westfield Health medical plan, focus days and external speakers, and pension education
- Equality, diversity and inclusion – we treat people the same while celebrating their differences, including employee training and a dedicated Company-wide action plan
- Through our scheme to enable employees to volunteer in local communities
- Through our employee referral scheme, whereby existing employees can recommend candidates, like friends and family, who would be a good match for our Company
- By liaising with our Company Joint Negotiating and Consultative Committee (JNCC) to secure a pay deal for employees via constructive talks.

OUR REGULATORS

What they expect

- That we achieve the pledges that we made in our current business plan
- That we are efficient with customers' money and bills are affordable for all
- That we help customers that have additional needs
- That we innovate to improve our services and find better ways of working
- That we are financially resilient and pay our shareholders appropriate returns on their investment
- That we invest for the future, so our service is resilient to climate change and other pressures
- That we contribute to protecting and improving our local environment.

How we talk and listen to each other

- Through regular meetings with all our regulators
- By taking part in joint industry and regulator workshops
- By our regulators joining our Board meetings
- By responding to consultations and requests for information
- By sharing our learning, knowledge and experience through water sector forums
- By taking part in collaborative projects and research.

How we work for the benefit of our customers

- By maintaining our financial gearing (how much debt we have, as a proportion of what the Company is worth) at an acceptable level
- By developing a Business Plan for 2025 to 2030 that will deliver all our legal and regulatory obligations and provide a better service for our customers at an affordable price
- By updating the way in which we determine how much return our shareholders receive on their investment and how much senior executives are paid, so both are fair and appropriate amounts
- By continuing to lead the water industry's research and innovation programme to reduce leakage
- By delivering projects funded through Ofwat's Innovation competition.

OUR STAKEHOLDERS CONTINUED

LOCAL COMMUNITY GROUPS

What they expect

- That we play an active role in the communities we serve and support projects that will deliver environmental and societal benefits
- That we support people with additional needs or who need help accessing our services
- That the investment we make to improve our services delivers wider benefits to people and places
- That we support the local economy by creating jobs including apprenticeships for young people
- That we always do our best to minimise the impact of our work on our local communities and we proactively communicate in advance when we need to work in roads or open spaces.

How we talk and listen to each other

- Through regular newsletters to local schools, charities and community partners
- By working in partnership with community organisations that help us reach and support people who have additional needs and by using their insights to help us improve our services
- By establishing partnerships with community organisations that we support financially and through employees volunteering time that aligns with our purpose of improving lives and enhancing nature
- Through our education programme with people of all ages
- By being members of local business forums.

How we work for the benefit of our customers

- By providing more than £20,000 in direct donations to our three community partners
- By raising £4,250 through fundraising for campaigns such as Macmillan coffee mornings, Save The Children and Movember and providing around 1,200 hours of employee volunteering time
- By reaching more than 4,600 people through our education programme including 3,260 students and teachers who visited our 'Flow Zone' education centre at Bough Beech Reservoir
- By expanding our school programme to include schools outside our area, whose students may become our customers of the future
- By enabling housing associations to act on behalf of their residents to get the help they need
- By regularly attending events run by local community organisations to provide advice to their customers and members.

LOCAL AUTHORITIES

What they expect

- That we plan ahead to adapt to the challenges of climate change and can cater for a growing population
- That we contribute to improving the environment, supporting nature recovery and improving biodiversity across the area we serve
- That we keep them informed about our plans and communicate proactively with local residents
- That we minimise disruption when we are carrying out work in roads and public spaces, liaising closely with them and others.

How we talk and listen to each other

- Through regular meetings between our senior leaders, council executives and local politicians
- Through regular engagement with local authority communications teams
- By engaging with key council departments, such as highways, to plan projects such as water main replacement schemes
- By being members of the local resilience forum and taking part in activity that helps us prepare collectively for emergency events.

How we work for the benefit of our customers

- We've carefully planned our programme to improve our network and upgrade our water mains to minimise disruption to local businesses
- We have connected 880 new homes to our network in the last financial year.

ENVIRONMENTAL ORGANISATIONS

What they expect

- That we do no harm to the environment and operate in line with our environmental permits and abstraction licences
- That we meet all our statutory environmental obligations and deliver the investment required in our Water Industry National Environment Programme (WINEP)
- That our long-term investment programme maximises opportunities to enhance the environment and deliver biodiversity net-gain
- That we work in partnerships with them and other land and water users to combine funding and maximise the environmental and societal benefits we deliver
- That we help our customers to use less water and reduce leakage.

How we talk and listen to each other

- Through our involvement in our local catchment partnerships
- Through regular meetings with a range of environmental organisations
- Through our work as part of WRSE to develop a long-term abstraction reduction forecast
- By engaging with our ESP and learning from other environmental and sustainability experts
- By devising and committing to stretching environmental and sustainability actions and strategies.

How we work for the benefit of our environmental organisations

- By causing no pollution to the environment
- By delivering all the schemes and investigations in our WINEP programme
- By achieving The Wildlife Trusts Biodiversity Benchmark at three of our main sites
- By continuing to reduce our carbon emissions by becoming more energy efficient, using more electric vehicles and renewable energy sources
- By working with farmers and landowners to reduce pollution and improve the quality of our water sources
- By putting forward an additional £5m of investment in our 2025 to 2030 Business Plan to deliver environmental improvements including a partnership project to improve the management of water in the River Eden catchment
- By investigating the impact of our abstractions to determine how much water should be left in the environment in the future.

OUR SUPPLIERS

What they expect

- That we have a procurement process that's open and transparent, and which complies with all the relevant laws and regulations
- That we take our legal obligations, such as around modern slavery, very seriously and ensure we are fully compliant, together with our suppliers
- That our contracts with suppliers include provision for data protection
- That we pay promptly for the goods and services supplied to us
- That we work efficiently and effectively as partners with suppliers
- That we have an ongoing clear focus on ensuring and enhancing health and safety among our suppliers
- That we give suppliers a clear view of upcoming work or other requirements.

How we talk and listen to each other

- Through dedicated working relationships, depending on the scope and nature of the arrangement
- Through our Procurement team, business leads, industry forums and events
- Via performance reviews each year with suppliers that are critical to the work we do
- Through regular meetings centred on planning and how suppliers are performing
- Through industry leading innovation projects.

How we work for the benefit of our suppliers

- Offer opportunities, where appropriate, for innovative product/service trials and learnings that provide data for development
- We strive to have strong and productive working relationships
- As a smaller company, we can make effective decisions more quickly. We work with suppliers to submit joint entries for various water industry awards, such as for innovation or engineering
- We provide testimonials for suppliers to use in publicity campaigns and happily support supplier promotional work.

Strategic Report
Governance
Financial Statements
Group Information

THE ROLE OF THE BOARD

Stakeholder engagement is a critical function of the Board, central to the creation and delivery of our plans, both in the shorter term and looking to the future. There is a role for the Board to play in assessing the needs of different stakeholders and carefully considering competing priorities as part of the decision-making process.

OUR PROCESS

A key reporting requirement is a statement of the directors on our compliance with section 172(1) of the Companies Act 2006. This includes the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard. You can read our statement, along with some examples in action, on pages 80 and 81.

Leadership and management receive training on directors' duties to ensure awareness of the Board's responsibilities

Board papers covering stakeholder engagement and relevant stakeholder information

Our Board continually engages with stakeholders. Read more on pages 38 to 41

BOARD INFORMATION

S.172 factors considered in the Board's discussions on strategy, including how they underpin long-term value creation and the implications for business resilience

Group's culture, underpinned by our re-launched purpose work, helps ensure that there is proper consideration of the potential impacts of decisions

BOARD STRATEGIC DISCUSSION

Chair ensures decision-making is sufficiently informed by stakeholder engagement

The Board keeps under review the quality of the information presented and receives assurance where appropriate

BOARD DECISIONS

Outcomes of decisions assessed followed by further engagement and dialogue with management and stakeholders

Actions taken as a result of Board engagement

A FOCUS ON EMPLOYEE ENGAGEMENT

Independent Non-Executive Director Jon Woods is the Board's lead on engaging with the workforce and has helped ensure the employee voice is heard in key discussions and decisions. Jon attends the Joint Negotiating and Consultative Committee (JNCC) annually, where he speaks directly with the representatives without management being present. This year key topics of discussion have included the strategic review and subsequent acquisition by the Pennon Group plc and the 2024/25 pay deal.

"I have been pleased this year with the level of engagement from the Board and management with the employee workforce during the strategic review of the Company, providing timely updates ahead of the eventual sale of the Company."

Jon Woods
Independent Non-Executive Director

BOARD DEEP DIVES

In addition to regular meetings of the Board, regular deep-dive sessions take place throughout the year, which are an important part of the governance process and helpful for a greater knowledge of both the Board and management. Time is spent looking at important projects to ensure the investment, structure, goals and delivery plans will result in long-term benefit for the Company and its various stakeholders. It's also an opportunity for Board members, particularly the independent non-executive directors, to provide targeted challenge to and support for into specific management plans.

WATER RESOURCES MANAGEMENT PLANS
customers, suppliers, local authorities, regulators and environmental organisations

CUSTOMER SERVICE IMPROVEMENT PLANS
customers, employees and regulators including Ofwat and CCW

HEALTH AND SAFETY
employees and suppliers

PR24 BUSINESS PLAN SUBMISSION
customers, employees, local community groups and regulators including Ofwat

DROUGHT PLANNING
environmental organisations

EMBEDDING OUR PURPOSE INTO THE BUSINESS

During the last year, we have brought together our work to develop our purpose, our materiality assessment and our customer pledges to embed our sustainability principles into everything we do.

Our Environmental, Social and Governance (ESG) Committee have alerted us to the concept of 'greenwashing'. We therefore present our forthcoming challenges as well as our work across the key ESG functions in the following pages. In particular, we present a carbon spotlight (pages 48 to 51) to fully explain our Business Plan submission and confront suggestions of a 'setback' in our net zero commitments.

ENHANCING NATURE, IMPROVING LIVES

KEY OUTCOMES OF OUR MATERIALITY ASSESSMENT

WATER RESOURCES AND DRINKING WATER QUALITY – considered joint highest priorities and are crucial for both the environment and people. This is our core business.

CUSTOMER-CENTRIC WATER SERVICES – promote awareness of water usage and its environmental impact. Create a close relationship with customers to prepare for expected future challenges, such as water and energy shortages, and incidents.

WATER AFFORDABILITY AND ACCESS – this must have a positive impact on customers, especially for those in vulnerable circumstances. We also need to consider that resources may be limited in the future due to climate-related impacts and economic challenges.

MANAGING RISKS ASSOCIATED WITH CLIMATE CHANGE – this has significant and direct impact on our resources, operations and resilience. Targeted investment is required to mitigate our impact on, and the impact of, a changing climate.

LOCAL COMMUNITIES – building partnerships is vital to achieve long-term positive impact and derive greater value from our combined investments.

ECONOMIC PERFORMANCE – This has an effect on not just the Company itself but on our ability to contribute positively to the wider community, such as investments to sustain the adaptation required to cope with climate change.

OUR LONG-TERM GOALS

- PROVIDE OUR CUSTOMERS WITH HIGH-QUALITY WATER FROM SUSTAINABLE SOURCES.
- HELP CUSTOMERS REDUCE THEIR WATER FOOTPRINT AND CHARGE A FAIR, AFFORDABLE PRICE FOR WHAT THEY ARE.
- DELIVER A RESILIENT WATER SUPPLY FROM SOURCE TO TAP AND MINIMISE WASTAGE.
- IMPROVE THE ENVIRONMENT AND HAVE A POSITIVE IMPACT ON OUR LOCAL AREA.

ENVIRONMENTAL

Climate change – reported through our Company risk reviews (pages 64 to 71), the risk of severe outages, restrictions in drought and unplanned outages, which are particularly representative of operating in a changing climate.

Carbon transition – reporting centred on our greenhouse gas emissions.

Sustainable water management – through the water quality compliance risk index, leakage and consumption measures and whether we abstract from certain environments at times of low groundwater levels (the Abstraction Incentive Mechanism, AIM).

Natural capital – reported through our deliverables for the Water Industry National Environment Programme (WINEP) and our bespoke commitment to improve biodiversity on our sites.

Waste and pollution – recorded through Environment Agency (EA) shadow reports relating to pollution incidents. We are proposing to develop these metrics in 2024/25.

SOCIAL

Health and safety – reported through lost-time recording, manager site inspections and fleet accidents.

Customer relations – reported utilising our regulator measures of customer experience, support to priority services and our customer's perception of value for money.

Workforce relations and equality, diversity and inclusion – this is predominantly monitored through our absence rates and people engagement surveys. We are proposing to develop our approach to equality, diversity and inclusion reporting in 2024/25.

Access and affordability – reported using vulnerable support awareness and financial hardship support metrics.

Education and social mobility – recorded through our professional development programmes and training initiatives.

Charitable giving and community support – monitored through our support to charitable partnerships and the number of voluntary 'Give A Day' activities our employees support.

GOVERNANCE

Board structure and diversity – managed through our Nomination Committee to ensure appropriate balance

Policies and procedures – managed through our ISO accreditations and related departmental quality and environmental management system.

Pay and reward – managed through our Joint Negotiating and Consultative Committee (JNCC) and Remuneration Committee, reviewing matters such as company performance, pay and benefits, working arrangements, company policies and business improvement.

Shareholder returns – managed and reported at a Board level in line with our dividends policy

Bribery and corruption – monitored through our Governance Committee, in line with associated Company policies including our whistleblowing policy

Political lobbying and donations – through our Governance Committee, adhering to our policy of no political donations.

BOARD OWNERSHIP

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

GOVERNANCE COMMITTEE

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

ENERGY STRATEGY COMMITTEE

Remit: To consider various aspects of the Company's energy and carbon policies, including energy procurement and key initiatives in our carbon transition.

HEALTH, SAFETY AND WELLBEING COMMITTEE

Remit: To ensure the Company adheres to strict health and safety standards across the business, and that there is appropriate focus on employees' wellbeing.

EXECUTIVE MANAGEMENT OWNERSHIP

EQUALITY, DIVERSITY AND INCLUSION COMMITTEE

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

ENVIRONMENTAL SCRUTINY PANEL

Remit: Scrutinise and constructively challenge our environmental ambition and ensure the needs of the environment are integral to our strategy and operations.

CUSTOMER SCRUTINY PANEL

Remit: To ensure the interests and expectations of our customers are at the heart of our activities. The focus of the Panel's scrutiny is on customer engagement and the service we provide, social purpose, community engagement and vulnerability.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE COMMITTEE

Remit: To ensure all aspects of the Environmental, Social and Governance (ESG) framework are being appropriately actioned and reported to the Board and other stakeholders, and facilitate constructive discussion around key areas and challenges.

ENVIRONMENT

SUPPORTING THE ENVIRONMENT WE WORK IN

During 2023, the Environmental Improvement Plan and Department for Environment, Food & Rural Affairs' (Defra's) Integrated Plan for Water were both introduced, providing clear expectation and direction for each and every organisation and person to support improvements to environmental quality, the use of resources, climate mitigation and bio-security. Together, this will contribute to thriving plants and wildlife and enhance our landscapes' beauty and heritage and our engagement with the natural environment.

Beyond this, the Plan for Water brings together long-term regulatory and process improvements to transform the whole system – from catchment to user – and we have already witnessed several aspects of this being initiated. Some elements of the Plan for Water, such as the reduction in water consumption, will be challenging to deliver – but we support the ambition and whole-water system approach set out.

Our continued progress across the components of our Environmental Strategy aligns with the requirements of these plans and meets our customers' expectations.

CLIMATE ADAPTATION AND RESILIENCE

We are in the final stages of preparing our Water Resources Management Plan following our Statement of Response to public consultation (submitted August 2023). This statutory plan sets out how we will manage water resources over the next 50 years against the backdrop of a growing population, climate change and our environmental destination; while providing the best value for our customers and the environment. The plan is based on providing an enhanced level of resilience to a severe (1 in 500 years) drought event from 2040.

Protecting and creating resilient environments is paramount to operating successfully in a changing climate. The challenges we face include deteriorating raw water quality, reduced water sources to protect sensitive environments and extreme weather events presenting impacts such as power outages or acute demand. Activities over the next 50, 25 and five years – captured in our Water Resources Management Plan, Long-Term Delivery Strategy and Business Plan – are integrated to ensure continuity in addressing these challenges. Our approach includes upstream interventions through our catchment scale work, and downstream improvements at operational sites, to ensure continued supply of wholesome water every day.

WORKING WITH NATURE'S CUSTODIANS

Our customers have provided resounding support for continued investment in their local environments that we operate in, and we have maintained momentum in our Water Industry National Environment Programme (WINEP) which aims to investigate or address local challenges arising from or affecting our core operation. We have concluded an investigation concerning the Hogsmill River – a local chalk-fed river – and remain on track to deliver our commitments across catchment-wide engagement and bio-security measures.

In preparation for an ambitious programme – including activities from a range of drivers, not just statutory requirements – we have set out plans to investigate where we need to reduce our abstractions, carry out greater catchment-scale interventions and undertake species protection work. Throughout this year we have developed relationships with key stakeholders that have shared needs for resilient catchments, and we look forward to continued collaboration and collective investment across these catchments and ecosystems. This includes partnership support for an establishing farm cluster in the Lower Eden, the predominant geographical area around our Bough Beech reservoir. Led by a farmer steering group, we are proudly part of the establishing cluster as the local water company and a landowner – sharing our concern for the principles of food production and agricultural support; water management; and landscape recovery and conservation.

Our ongoing and future catchment work is complemented by continued development of our estate management. This year we have achieved a third Wildlife Trusts' Biodiversity Benchmark with Bough Beech's accreditation now confirmed. Delivering the Biodiversity Benchmark – the first and only water company to do so as part of our bespoke performance commitment – demonstrates how operational activities and the protection of nature can be balanced, and has given us vital experience in managing land for biodiversity. We have nominated our main landholdings, accounting for 80% of our estate, into Ofwat's new common biodiversity performance commitment (from 2025) and defined a profile of biodiversity net-gain over 25 years that we will work to achieve on this land.

LOCAL ACTIONS BRING REGIONAL CHANGE

As part of our purpose development, our Environmental Scrutiny Panel challenged the business in its work to enhance nature – beyond our bespoke performance commitment (our Biodiversity Benchmark Awards). We initiated transformation plans across our estates – to derive better value to the locality centred around nature conservation, managed access to blue and green spaces, provision of education services and the protection of local heritage – contributing to the evolution of thriving local economies.

Across our Bough Beech estate we have several partners (our joint users) that are key to the ongoing management of the land, including volunteers at an Oast House and nature reserve, a farming family on agricultural land, and sailing and angling clubs across the reservoir. We are underway with making changes, where needed, to agreements that enable our joint users to grow their businesses while helping them manage certain risks.

We have secured business and complementary funding (from Defra's Farming in Protected Landscapes) to support the renovation of our heritage facilities and establish nature-based learning from our Oast House and nature reserve. This is with the support of a neighbouring partner, the Commonwork Trust, and we will be embarking on our first community in nature events during 2024, working hand in hand with our volunteers engaged in ongoing nature conservation work.

As we progress this work with our partners and pursue the interventions of our 25 Year Environment Plan investigation proposed for the wider Eden catchment, we are confident that Eden will become more resilient over the coming years. We caution that this is not a short-term fix. We must provide continued support with our partners to our estate and the catchment, and remain a long-term actor within our community.

ENVIRONMENT CONTINUED

CARBON TRANSITION EXPLAINING OUR CHALLENGES

Although we have been committed to reducing our carbon footprint for a long time and, since 2020, have had a bespoke performance commitment to report our operational greenhouse gas emissions, there are emerging issues we are navigating.

These include nuances in reporting boundary, limited customer support for us to accelerate our net zero work and specific limiting factors of our operations. This spotlight on our carbon transition aims to explain our challenges and set out how we nevertheless intend to continue making the right decisions and reduce our emissions, transparently.

Through a demand-led approach, we will continue to work towards the Government's net zero target of 2050 – but we know we will fall short of the 2019 Water UK Public Interest Commitment to reach operational net zero by 2030. In our Business Plan submission, we did not pursue additional investment as it was not supported by our customers, but we intend to explore and innovate opportunities to address our constraints.

NATURAL CAPITAL

Our net zero goals are rooted in enhancing the environment. We're prioritising nature-based solutions, and minimising built infrastructure. At our Bough Beech estate, we are exploring wetland development to improve water quality and sequester CO_2.

WASTE & POLLUTION

We're broadening our definition of 'emissions', to cover greenhouse gases, air quality detractors, and business-generated solid waste. Enhancing efficiency, streamlining processes and prioritising waste management are all integral to reducing our environmental footprint.

CARBON TRANSITION

Working to reduce our carbon footprint, and aligning with the Government's plans for Net Zero 2050.

REPORTING BOUNDARIES

Nuances in reporting boundaries and the changing approach over time emphasise the complexity we face in the journey to net zero, and have resulted in the different reporting boundaries discussed below:

CHANGES IN EXPECTATIONS

The Water UK Public Interest Commitment outlines the industry's ambition to be net zero in operational emissions by 2030.

This reporting uses market-based emissions and does not include our chemical use.

Ofwat's proposed methodology for common reporting across companies would instead require us to use location-based emissions factors and include our chemical use.

We have therefore proposed a hybrid reporting scenario that will allow us to use market-based reporting and present our chemical use emissions transparently.

MARKET VS LOCATION – WHAT'S THE DIFFERENCE?

Market-based reporting reflects emissions from energy that companies have purposefully chosen (like our 100% Renewable Energy Guarantees of Origin-backed renewable energy). Location-based reporting considers the average emissions intensity of the grid where the energy is being consumed (i.e. the average from the UK grid).

WATER UK PUBLIC INTEREST COMMITMENT	SES WATER APPROACH	OFWAT PERFORMANCE COMMITMENT
Operational net zero by 2030.	**Hybrid approach allows for market-based solution.**	**Introduced for PR24. Prioritises company actions.**
Market-based	Market-based	Location-based
Variable emissions factors	Variable emissions factors	'Locked' 2022 emissions factors
Chemicals excluded	Chemicals included	Chemicals included

ENVIRONMENT CONTINUED

WHY ARE CHEMICALS BEING CONSIDERED?

We have a unique requirement to soften water for our customers, and we are the only water company in the UK that must do this. The process for softening requires significant energy and chemical usage. This process alone is expected to account for 60% of our operational emissions by 2030, and 80% of our operational emissions by 2050. We are therefore monitoring this closely, regardless of our regulatory reporting requirements, so that our business is properly informed to seek the appropriate solutions as we become fully net zero. This will include a review of our softening requirement in the next Business Plan period (2025-30).

CUSTOMER ENGAGEMENT

Customer views and priorities have been central in setting our short- and long-term performance targets. Our customers are placing increasing importance on enhancing the local environment, but are polarised on the importance of net zero in this.

SES WATER CUSTOMERS

Customers have polarised views on the importance of net zero.

27% supported a more ambitious programme, aiming for operational net zero by 2030.

51% supported aiming to hit net zero by 2050, but at no additional cost to them.

INDUSTRY RESEARCH

Industry research found that fewer than 9% of consumers made the link between reducing water consumption and achieving net zero.

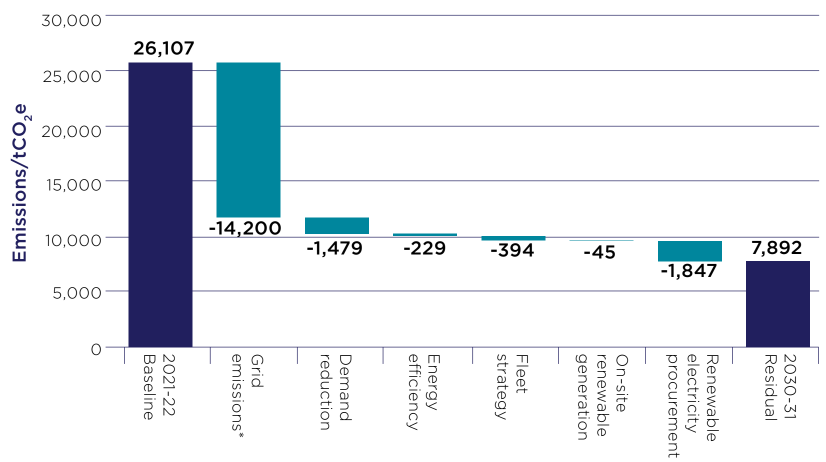
OUR FOCUS

RESIDUAL EMISSIONS

Even with our plans to reduce emissions, we will still have significant residual emissions in 2030. These will need to be addressed through good-quality offsetting and removals.

In order to meet our net zero targets, carbon reduction needs to be at the heart of all decision-making, at all levels of the business. From responsible procurement, to operational processes, to employee engagement.

Emissions Reduction Pathway to 2030



As a water-only company, our net zero trajectory out to 2030 relies heavily on the decarbonisation of the grid. We are committed to supplementing these reductions through driving forwards with our innovative and ambitious demand and leakage reduction strategies, alongside furthering our work on decarbonising our operational fleet, and ensuring efficiency in our processes. To support our plans, we will:

- Reduce per capita consumption by 11% from 2019 levels
- Reduce leakage by 27% from 2019 levels
- Reduce our operational fleet's mileage by 20%
- Increase the proportion of EVs in our operational fleet to 50%
- Use 100% good-quality renewable electricity supply
- Optimise and improve processes to drive efficiency

ROUTE TO NET ZERO

We are reducing our carbon emissions across the whole of our operations and assets. We have prioritised our reductions to align with Institute of Environmental Management and Assessment's 2020 GHG Management Hierarchy:

- **ELIMINATE** emissions through changes to operations, products or business structure
- **REDUCE** energy consumption through efficiency and optimisation
- **SUBSTITUTE** for renewables and low-carbon technologies where emissions cannot be eliminated or reduced
- **COMPENSATE** against unavoidable residual emissions through good-quality offsets, removals and nature-based solutions

2018	DECEMBER 2019	MARCH 2020	OCTOBER 2022	OCTOBER 2023	JUNE 2024	AUGUST 2024	APRIL 2025	2030	2050
SES Water moves to 100% renewable energy	Energy Savings Opportunity Scheme Phase 2 submission	Introduction of Electric Vehicles into operational fleet	SES Water creates a dedicated Sustainability team	Submission of draft PR24 – detailing net zero plans out to 2050	Receipt of Ofwat's draft determination for PR24	ESOS Phase 3 submission	Start of AMP 8	Water UK Public Interest Commitment aiming for Net Zero	Targeting Net Zero Carbon, aligning with UK Government

THE ENVIRONMENTAL SCRUTINY PANEL

Alison Thompson
Chair of the Environmental Scrutiny Panel

The Environmental Scrutiny Panel (ESP) was established in 2020 as an expert group to challenge – and in the process, accelerate – environmental ambition. Borne of my passions for water stewardship, innovation, business transformation and behaviour change, I carefully assembled a progressive Panel that brings together high-level, diverse expertise from a national and local perspective motivated by optimal environmental outcomes. Together, the ESP has forged a trusted and collegiate culture to support and challenge the Company up to Board level on risk, strategy and investment.

A thriving environment isn't a luxury, it's our lifeline. We all rely on a healthy environment to provide high-quality water, and research confirms customers and communities rightfully demand that the Company minimises their water footprint and actively enhances nature. The ESP offers an independent, forward-looking voice on plans and performance, generating best-practice insights and evidence to push the Company to strive ambitiously.

CURRENT MEMBERS:

Steve Crabb, Chair, Customer Scrutiny Panel, Trevor Bishop, Independent, Karma Loveday, Independent, Bella Davies, South East Rivers Trust, Emma Langford, Environment Agency, Dr Ana Maria Millan, Consumer Council for Water (CCW), Stephanie Fox, Waterwise, Sarah Holloway, Independent, Catherine Moncrieff, Independent, Sarah Jane Chimbwandira, Surrey Wildlife Trust.

SHAPING THE BUSINESS PLAN AND LONG-TERM DELIVERY STRATEGY

- This year, we contributed to shaping SES Water's Water Resources Management Plan, Business Plan and Long-Term Delivery Strategy – significant documents charting the Company's course for the next quarter-century and beyond. This comes at an important time, as environmental responsibility takes centre stage in public, media and regulatory consciousness.
- We collaborated with the Customer Scrutiny Panel to ensure customer and stakeholder views on affordability and acceptability were heard loud and clear throughout the planning process. This included attending focus groups, strategy deep dives, and bi-weekly meetings, where we provided expertise, critiques and suggestions for improvement.
- We hosted non-executive directors at ESP meetings, fostering alignment on critical environmental challenges facing SES Water, especially on long-term planning to mitigate water scarcity. This culminated in an Assurance Report presented to the Board and water industry regulator, Ofwat, that directly influenced the final documents.

LEADING THE CHARGE ON ENVIRONMENTAL RESPONSIBILITY

- Since its inception, the ESP has championed the need for a strategic Environmental, Social and Governance (ESG) vision and strategy for the Company: an ESG strategy that, at its core, assesses climate-related risks and opportunities effectively to enhance strategic thinking and delivery. To help shape this process, the ESP was involved with a Materiality Assessment to support the Board in underpinning strategic building blocks and early thinking.
- The innovation vision within SES Water visibly inspires staff and sparks powerful partnerships. This culture of innovation fostered over time attracts high-calibre partners, multiplying the Company's contribution far beyond its reach.
- Witnessing the innovation journey of this small water-only company, not only leading the conversation but also delivering sector best practice on leakage, has been inspiring. As things stand, the ESP is encouraged that the Company is on track to meet or better its AMP 8 leakage target. This sets the Company up for continued success harnessing the power and potential of its new intelligent network. The ESP has secured additional crucial Company support, for a 63% leakage reduction target by 2050.
- The ESP championed an accelerated smart meter roll-out (to seven years), empowering customers with water usage insights to reduce water wastage.
- By advocating tangible ways for the Company to bring to life its renewed purpose to 'enhance nature', we influenced SES Water to prioritise the River Eden project for future water resources and invest in the River Mole catchment partnership to combat flash flooding.
- The ESP was key to helping SES Water develop and critically evaluate its first-ever marketing campaign to positively influence customer behaviour by driving down water usage. The campaign ran over 12 weeks, delivering 3.29 million impressions, across a range of media to reach different audiences.

BEYOND BUSINESS AS USUAL

- **Government Imposes Ambitious Targets**: The national Integrated Water Plan sets aggressive water-reduction goals, putting the onus on companies like SES Water. While a legally binding target for reduced public water use is positive, the plan lacks a clear roadmap for achieving it through household behaviour change. The Water Resources for the South East Regional Plan expects a massive reduction in water demand by 2050, relying heavily on consumer behaviour shifts – a strategy with an uncertain track record.
- **Public outrage** over polluted rivers and storm overflows demands action from all water companies and wider stakeholders to play their part. While SES Water focuses solely on drinking water supply, clean and plentiful water resources are crucial. So, working with customers in a new way to ensure this into the future is becoming mission-crucial.
- **The ESP Takes Action**: I was called upon by the former Chief Executive of the CCW to support the regulators' efforts on water resources. Through convening high-level meetings with industry leaders, I urged a shift in behaviour towards more accelerated action and investment in demand-side reduction across the whole sector.
- **SES Water Steps Up**: SES Water has reciprocated with a positive response to this intervention, engaging in the CCWs 'Leading the Way' initiative, and actively participating in behaviour change strategies. The Company's efforts, including sharing valuable data and insights, demonstrate an intent to tackle this challenge head-on.

COLLABORATION FOR SUCCESS

- We are grateful for the spirit in which our challenge has been received by Dave Shemmans, Chair, Ian Cain, Chief Executive, Tom Kelly, Wholesale Director and wider colleagues we have interfaced with. The ESP's evidence-based approach and close collaboration with the CEO and Board yielded tangible results on critical topics like the Water Resource Management Plan and leakage reduction strategies.
- Recognising the uncertain and rapidly changing strategic context, the ESP urged a review of risks and opportunities beyond a business-as-usual approach, with a special focus on horizon scanning and opportunities mapping.
- We facilitated dialogue at our meetings with the Surrey Youth Cabinet, ensuring future generations are included in environmental decisions on topics like building support for smart metering.
- The Company has demonstrated real success and leadership on leakage through its industry leading Advanced Metering Infrastructure Proof of Concept. The ESP is hugely supportive of this. We are pleased to see this investment and bravery (innovation is not always an easy road) filtering through to performance metrics: not only in terms of leakage but with multiplier positive impacts on mains bursts and supply interruptions. Metering and Per Capita Consumption remain the next priority areas to improve for the Company.

LOOKING AHEAD

- We remain dedicated to partnering with SES Water to manage risks, refine strategies and ensure its investments benefit the environment, communities and customers. We eagerly await Ofwat's Draft Determination this summer to continue shaping SES's environmental commitment.
- We especially look forward to continuing to work with SES Water as it transitions to its new ownership structure, and the significant opportunities and challenges this will inevitably create. It is imperative to ensure that the momentum that has been built, and performance delivered, in recent years, is maintained and where possible, accelerated so a wider customer base can benefit from innovations such as harnessing the intelligent network to reduce water waste and delivering greater customer behaviour change.
- Looking further ahead, net zero carbon and climate change adaptation in the context of building systems-based resilience will be another key area of focus. We are optimistic that the established ESG expertise that a larger group like Pennon can bring, could be hugely beneficial for SES Water in seeking to meet and where possible exceed expectations on climate goals. Keeping transparent about the inevitable trade-offs and learnings that emerge will be key. The transition is not necessarily a linear or rapid path, so the collaboration of all stakeholders to enhance climate and nature is vital.

SOCIAL

OUR PEOPLE

Our People will always be our greatest strength, and their commitment to deliver high quality drinking water and a consistently high level of service for our customers can always be counted on. During the past year there have been countless examples of our people going above and beyond to make sure our customers receive the service they expect and rely upon.

THE THRIVING TOGETHER WORKING GROUP

In the past year Thriving Together Working Group (TTWG), has continued to align the key themes of diversity, inclusion, wellbeing, the environment, and health and safety. By consolidating this approach, we believe we will be able to provide more opportunities for colleagues to get involved with the activities they are most passionate about.

COMMUNITY ENGAGEMENT

The TTWG, alongside our Health, Safety and Wellbeing and Environment Committees, have also collaborated to create a community events calendar for the year, aligned with our purpose and our People Plan. This has provided colleagues with opportunities to participate in events and support some great causes.

For example, we have opened more opportunities for colleagues to participate in Give A Day – 153 colleagues in total – supporting a wide range of local charities including Stripey Stork, Community Fridge, The Wildlife Aid Foundation, The Orpheus Centre, The Conservation Volunteers, Crossroads Care, and MHA.

LEARNING, DEVELOPMENT AND RESOURCING

We continue to deliver in line with our People Plan, the three priority areas being:

1. **Building capability for the future**
2. **Enabling our business to be future ready**
3. **Developing a culture that thrives**

WHAT WE'VE BEEN DOING

- Implementing our Early careers strategy by continuing to build relationships with local education providers, attending career fairs, offering a structured work experience week and apprenticeships
- Unlocking the potential of our people by investing in their development, leadership capability, technical skills development/qualifications, and professional development
- Making work life easier for our colleagues through our HR digital transformation programme introducing new systems and processes
- Providing driver distraction training to 89% of our driver population to support the health and safety of colleagues while driving a Company or private vehicle
- Delivering bitesize performance management sessions through HR Business Partners. These sessions included: Dignity at Work, Change Management, Feedback and Coaching, Prioritising, Making Meetings Matter and Motivating Your Team.
- Holding Health and Safety roadshows across our sites where we re-launched the 'Stop Card' initiative empowering every colleague to stop any work they deem unsafe. We also provided mini medicals for colleagues and discussed driver challenges, with support from our Garage function in the business

TALENT MANAGEMENT

- Continuing to support those doing a Diploma in Production or other professional qualifications and apprenticeships
- Supporting development of 18 colleagues into management roles across the Group through attendance on our six-month Aspiring Managers development programme enabling them to be more effective in their role and prepare for different roles in the future.
- In the last year, there have been 22 promotions, 18 role changes (either within a department or a move to a new department) and 3 secondments (between 3,6,9 and 12 months)
- Plus, a job shadowing opportunity between our Fleet and Production teams resulted in a colleague changing career and moving to a new role in Production

WHAT WE WILL DO

- **A formal mentoring and job shadowing programme**
- **Implement manager dashboards in our HR system to provide management information (headcount, sickness, recruitment, learning) in an easier to use format**
- **Establish a working group for the HR Digital Transformation Programme so all views are considered when introducing new people systems and processes**
- **Upgrade our Performance Management system to enable mangers and colleagues to capture outcomes from 1:1s and achievement of objectives throughout the year moving away from an annual review**
- **Create more outside in learning opportunities by leveraging personal networks, industry networks and supplier best in class**
- **Work towards introducing menopause awareness training for all managers and MHFAs, with optional training available for colleagues**

SOCIAL
OUR PEOPLE CONTINUED

COLLEAGUE VOICE

We have a Joint Negotiating and Consultative Committee (JNCC) which works to secure pay deals and other benefits for colleagues via constructive talks with management. We also run annual engagement surveys for all colleagues to feedback about their experience of working for the Company.

REWARD AND RECOGNITION

We've launched a new reward and recognition scheme this year called 'SES Stars', whereby each month six colleagues are selected from nominations by their peers as those who have gone above and beyond to achieve against our Company values. Each SES Star is awarded with a voucher and a unique lanyard to highlight their achievement.

PRIORITISING HEALTH

We have a trained team of Mental Health First Aiders (MHFAs) who encourage colleagues to talk more freely about mental health, reduce stigma and create a more positive culture. The Company also offers annual flu vaccinations and health checks to all colleagues.

MAKING A POSITIVE SOCIAL IMPACT

We continue to recruit top talent, ensuring that diversity and inclusion underpins everything we do. We also regularly attend local schools and career fairs to promote roles in the water industry and opportunities for future generations to undertake work experience at the Company.

CUSTOMER SCRUTINY PANEL

THE CUSTOMER SCRUTINY PANEL

"This has been another very busy year for SES Water's Customer Scrutiny Panel (CSP) – and one in which I believe we have sharpened our ability to constructively challenge the Company and added real value on behalf of customers."

Steve Crabb
Independent Chair,
Customer Scrutiny Panel

The main focus of our work has of course been the PR24 price review and the development of the Company's Long-Term Delivery Strategy through to 2050, which came to a head in the autumn of 2023. We were delighted to see the Company conduct some first-class customer engagement exercises to better understand customers' aspirations for the future with regard to water supply and quality, and the financial and environmental costs they were willing to accept. SES Water's two 'Your Water, Your Say' events were industry leading and showed a sincere openness on the part of the Company's CEO, Ian Cain, and the executive team to genuinely listen to customers (no matter how uncomfortable that might be) and take on board their views. We were doubly delighted to hear that the Company will be continuing with these events even though they are no longer mandatory. We also saw the Company deepen its understanding of the communities it serves through first-class use of data and through attending events, including fun runs and the Surrey Pride festival. This has been a transformative year for the Company in terms of customer and stakeholder research and engagement, and we hope to see SES Water continue to build on these foundations.

Our contribution to this work as a panel got better as PR24 unfolded. To begin with, I think it is fair to say that we found it challenging to find the right balance between having enough detail on individual events (of which there were a great many, thanks to Ofwat's detailed guidance) while being able to see the 'wood' of strategy for all the trees. It did not help that, at least to begin with, it was unclear what formal role customer panels like ours would have in the process, if any at all. It is to SES Water's credit that they decided that CSP (and our sister panel, the Environmental Scrutiny Panel), or ESP would have an important role to play in providing assurance on the quality of their research and engagement, and so it was easy for us to take up the role that the regulator eventually assigned to us. I am delighted to report that CSP has been asked to continue providing scrutiny on behalf of customers until at least April 2025, which is further evidence of SES Water's openness to constructive challenge.

In order to improve our effectiveness, we added new members to the panel, including Beryl Wall, an expert in customer research and engagement, and Paula Sone, who has a deep understanding of future bill-payers. Paula was often accompanied by an actual future bill-payer, Rhushil Scouton, who has added great value to our discussions as an additional member of CSP. We were also delighted that Christine Cleveland agreed to join CSP as an independent member, having previously attended as a representative of the Consumer Council for Water (CCW), with CCW's Dr Ana Maria Millan stepping back in as a regular attendee. All four have added great value over the past year, as have long-standing members like Amy England, Chris Hoskins, Simon Bland and ESP chair Alison Thompson. Alison and I also participated in an industry-wide group that brought together challenger group chairs from all the water companies to share best practice and feed into discussions around the development and progress of the price review; we learned a great deal from engaging in this group as well as contributing in our own right.

Thanks to the additional expertise that our new members brought in, and some challenging but constructive discussions with the team at SES Water and their agency partners, our contribution to PR24 and the Long-Term Delivery Strategy definitely improved as the process unfolded. As well as providing ongoing scrutiny and challenge as the planning process went along, we produced a number of reports for the executive team, Board and other stakeholders along the way and a final Assurance Report after SES Water submitted its Business Plan to Ofwat.

By the end of the business planning process, we were more than satisfied that the final documents do an excellent job of balancing the preferences of customers with the longer-term needs of the environment and the communities SES Water serves. We also applaud the Company's commitment to rebuilding trust with its customers – trust which has been damaged partly by negative coverage of the water industry generally and waste water companies in particular, both of which are largely beyond SES Water's control.

This year has not just been the story of PR24 and the long-term strategy, important as they were. We have continued to scrutinise the Company's delivery of its existing performance commitments and 'business as usual' activities. Again, we have seen solid progress in most areas, and outstanding progress with regards to the management of leaks. The two areas where more work is clearly needed is in getting issues right the first time customers raise them with the Company, and in ensuring that customers in vulnerable circumstances know about the help that is available to them. We are confident that the executive team are all too aware of these, and we continue to have encouraging discussions with them about ways of improving these aspects of their performance.

Over the past few months, much of our focus has been on helping SES Water develop its new strategy for customers who need additional support. While we recognise that smaller water companies like SES do not have the resources to be industry leading in everything they do, we feel that this is an area where SES Water can excel, thanks to the relatively small number of communities it serves and its increasing understanding of customer demographics.

As ever, I would like to thank Ian Cain and the executive team at SES Water and Dave Shemmans and his colleagues on the Company's Board for their support and encouragement of the work of the CSP over the last year.

OUR FINANCIAL PERFORMANCE

"We have completed a series of successful equity and debt refinancing activities to improve financial resilience."

Paul Kerr
Chief Financial Officer

The year ended 31 March 2024 proved to be yet another challenging year for the Company, with continued levels of high inflation, upward cost pressures particularly on electricity and chemical costs and the ongoing cost of living crisis. These factors continue to impact both our business and wider industry.

In amidst some challenging external factors, our shareholders embarked on a strategic review which concluded in the sale of SES Water and the wider East Surrey Holdings Group to the Pennon Group plc at the beginning of January 2024. We look forward to the future with our new shareholders and the synergies that we bring across the industry.

During the year, we also submitted our Business Plan to Ofwat as part of the Price Review (PR24) cycle which determines the level of revenue we can charge our customers, the performance targets that we set and consequently the costs we incur to deliver this performance across AMP 8 (2025-2030). Our focus for the next financial year is to ensure that we are in a strong financial position as we enter into the new AMP period.

In the year we saw the impact of investor uncertainty as markets reacted to our strategic review and the wider scrutiny that the water and wastewater industry is currently under. Despite this, we were able to continue to increase our financial resilience. In November 2023 we secured a £40m private placement with Phoenix – a first for Phoenix as a standalone investor – this helped strengthen our debt portfolio and provide a stable liquidity foundation for the rest of AMP 7 and beyond. In June 2024 we also completed the renewal of a £65m RCF facility through to December 2025. As we move into 2024/25 and to completing our PR24 business plan work we look forward to engaging with our new shareholders to update our medium-term financing plans; this includes further equity as per our business plan.

Our continued delivery of our performance commitments that you can read on page 25 is due to our investment in our infrastructure. This year, we have continued our capital programme with significant investment in replacing and laying key strategic mains to increase operational resilience and investing in our metering and smart network programme.

FINANCIAL PERFORMANCE

Our financial results are summarised in the table below. For more information, refer to the statutory financial statements from page 123.

Year ended	2024 £'000	2023 £'000	Change £'000	Change %
Revenue	**72,829**	67,446	5,383	8%
Operating expenses	**(67,271)**	(62,818)	(4,453)	(7%)
Other operating income	**117**	1,097	(980)	(89%)
Net impairment losses on financial and contract assets	**(1,325)**	(1,458)	133	9%
Operating profit	**4,350**	4,267	83	2%
Finance income	**826**	855	(29)	(3%)
Finance expense	**(30,491)**	(30,612)	121	0%
Loss before tax	**(25,315)**	(25,490)	175	1%
Tax credit	**6,072**	5,979	93	2%
Loss after tax	**(19,243)**	(19,511)	268	1%

REVENUE

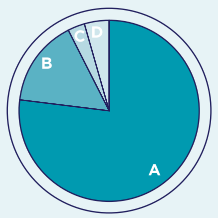
Our revenue is mainly generated by billing our household and non-household customers for the essential water service that we provide. The prices that we charge our customers are determined by working with our regulator, Ofwat, on a five-year price review process, based upon the costs we expect to incur to operate the business in that period. Our current regulatory period covers 1 April 2020 to 31 March 2025, known as 'AMP 7', with 2023/24 being the fourth year of the five-year period.

Total revenue has increased by 8% to £72.8m (2023: £67.4m): seeing a 13% increase on household measured revenue to £35.5m (2023: £31.5m): despite seeing lower volumes of water consumed compared to the prior year's long hot summer. Unmeasured revenue remained consistent with last year, driven by tariff increases offset by customers switching from unmeasured to measured plans as part of our planned metering programme. Despite the overall increase in revenue from the prior year, our revenue remained lower than our allowed revenue from Ofwat. Under the regulatory regime we are able to recover this deficit in future years. This becomes part of our AMP 8 opening adjustment on tariffs. Non-household revenue increased from prior years' levels due to higher levels of demand to £11.2m (2023: £9.7m).

Developer revenue included in non-water revenue decreased from prior year due to lower volumes of new connections. This lower demand is partially driven by developers choosing to complete their own connections.

Year ended	2024 £'000	2023 £'000	Change £'000	Change %
Measured water revenue (household)	**35,527**	31,476	4,051	13%
Unmeasured water revenue (household)	**20,657**	20,850	(193)	(1%)
Total water revenue (household)	**56,184**	**52,326**	**3,858**	**7%**
Wholesale revenue from retailers (non-household)	**11,188**	9,662	1,526	16%
Other water revenue	**560**	778	(218)	(28%)
Non-water revenue	**2,646**	2,303	343	15%
Non-appointed revenue	**2,251**	2,377	(126)	(5%)
Total revenue	**72,829**	**67,446**	**5,383**	**8%**

The split of revenue by customer type is shown in the graph below:



	£'000	%
A Household	**56,184**	**77**
B Non-household	**11,188**	**15**
C Non-appointed	**2,251**	**3**
D Other	**3,206**	**5**

OPERATING EXPENSES AND OTHER OPERATING INCOME

Operating expenses increased by 7% to £67.3m (2023: £62.8m) with the increases primarily being driven by:

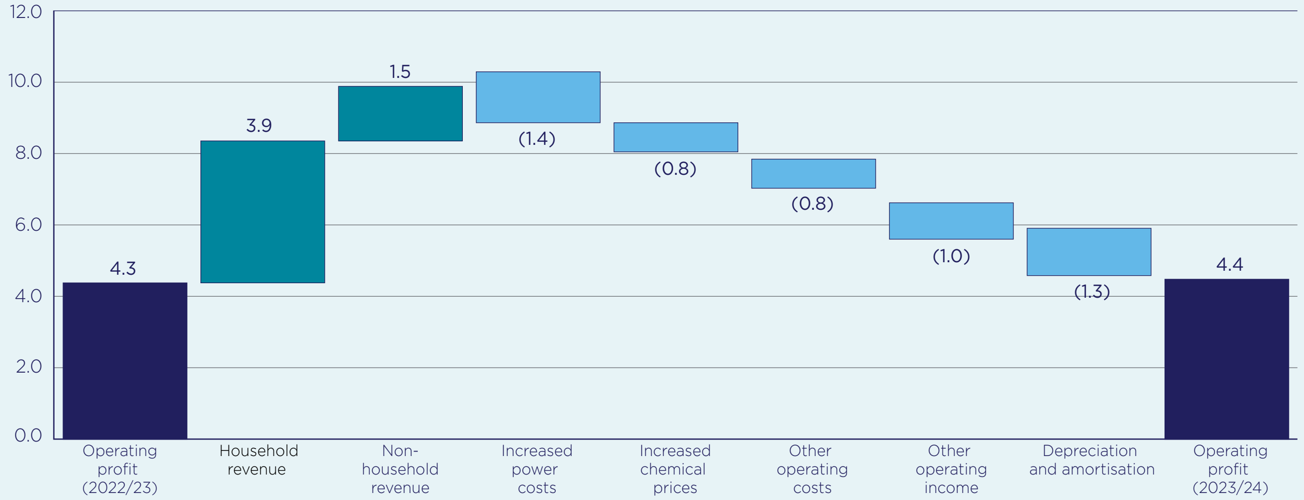
- Our total employee costs remained consistent with prior year. Despite a 6% pay rise across our colleagues the mix of filled roles meant that overall employee costs remained consistent
- Power increased by £1.4m or 21% to £8.3m (2023: £6.8m) mainly due to unavoidable pass-through of electricity fixed charges in the year. These are contributory overhead costs built in to offset the operational, maintenance and energy losses of both the transmission and distribution networks. We continue to hedge our volume-driven power costs. Without this hedge in place our electricity costs would have been significantly higher in the year
- Raw materials and consumables increased by £0.8m (20%) to £4.8m (2023: £4.0m) due to the increased supply chain pressure and increase in chemical prices seen across the industry.
- Depreciation and amortisation increased by £1.3m (9%) to £14.9m (2023: £13.6m) due to the continued investment in our capital investment programme
- Legal and professional fees increased by £0.2m to £2.6m (2023: £2.4m) due to costs associated with the submission of our PR24 Business Plan to Ofwat. In addition, £1.6m of strategic review costs were incurred but reimbursed by the shareholder and therefore not recorded in our legal and professional fees
- Bad debt is predominantly driven by customers who are unwilling or unable to pay their water bills. The Company continues to have measures in place to support those customers who are unable to pay their water bills and enhance its cash collections. The COVID-19 pandemic and subsequent cost of living crisis adversely impacted our customers' ability to pay their water bills, the expected credit loss model (bad debt provision) resulted in a year end balance of £7.5m, which after consideration of the balances written off was a £1.3m increase as per Note 16. The debt written off in the year was 100% provided for.

	2024 £'000	2023 £'000	Change £'000	Change %
Staff costs	**15,748**	15,622	126	1%
Power	**8,264**	6,821	1,443	21%
Raw materials and consumables	**4,848**	4,030	818	20%
Insurance	**1,066**	1,064	2	0%
Rates	**3,275**	3,468	(193)	(6%)
Subcontractors	**6,976**	6,875	101	1%
Legal and professional fees (excluding auditor's fees)	**2,643**	2,363	280	12%
Fees payable to the Company auditor	**457**	539	(82)	(15%)
Amortisation and depreciation	**14,902**	13,648	1,254	9%
Other operating costs	**9,092**	8,388	704	8%
Operating costs	**67,271**	62,818	4,453	7%

Other operating income decreased by £1.0m (89%) to £0.1m (2023: £1.1m) mainly due to £0.2m of Research & Development (R&D) related tax credits received in 2023 (which were not repeated in 2024) and a one-off commercial settlement received in 2023 of £0.6m.

OPERATING PROFIT

As a result, operating profit reduced by 4% to £4.4m (2023: £4.3m) due to the increased costs noted above and can be summarised in the graph below:



FINANCING COSTS

Financing costs remained consistent with prior year at £30.5m (2023: £30.6m). In the year RPI inflation dropped compared to prior year, although still significantly above historic levels. The drop in inflation resulted in a lower indexation charge on our long-term index-linked bond compared to the prior year. Despite the lower inflation rate in the year the value of the index-linked bond increased by £18m, which will be repayable in cash instalments to the bond holders between 2027 to 2031.

Offsetting lower inflation were higher interest rates compared to last year resulting in increased interest charges on our revolving credit facilities.

In addition, in the year we paid a one-off £0.8m to commercially settle on the removal of our adjusted interest cover ratio with the guarantors of the bond. This is taken into the profit and loss in 2023/24 but payable over the next ten years.

KEY FINANCIAL METRICS

Year ended	**2024 £'000**	2023 £'000	Change £'000	Change %
Dividends payable	**-**	8,100	(8,100)	100%
Capital expenditure including intangibles	**22,446**	25,300	(2,854)	(11%)
Net pension scheme asset[1]	**5,103**	8,409	(3,306)	(39%)
Cash and cash equivalents	**48,256**	38,957	9,299	24%
Net debt	**271,770**	255,896	15,874	6%
Interest cover ratio	**2.7x**	4.5x		
Regulatory gearing	**77%**	77%		
Bond gearing	**79%**	77%		
Moody's Credit rating	**Baa2 (stable)**	Baa2 (stable)		

1 The net pension asset in 2024 is shown net of deferred tax.

TAX

Due to the loss before tax, primarily driven by the impact of inflation on our index linked bond, a tax credit was reported in the year.

In 2023/24 we continued to pay contributions to HMRC of £5.3m in business rates, National Insurance contributions, PAYE and other taxes. Within the financial year we have not had to pay corporation tax to HMRC due to our interest costs and tax relief generated by our capital investment programme.

DIVIDENDS

The Board carefully considered the payment of a dividend in line with our dividend policy, taking into account operational performance and delivery for customers, however due to the ongoing strategic review and continuing poor financial results concluded that no dividend would be declared or paid in the year. A full explanation of the dividend policy is provided in the Directors' report on pages 111 and 112.

BALANCE SHEET

In the year to 31 March 2024 we continued to increase our liquidity and financial resilience. Our cash reserves were £48.3m at the end of the year, of which c.£11.4m sits within our restricted accounts in accordance with the requirements of our index-linked bond. We have utilised £65.0m of our £75.0m revolving credit facility. On 28 November 2023 we entered into a private placement with Phoenix: we drew the first £10m in November 2023 and a final drawdown of £30.0m in March 2024. The private placement continues to widen our debt portfolio and increases our financial resilience. In addition, our shareholders have invested £22.0m of equity into the business further increasing liquidity in the business. Subsequent to year-end on 12 June 2024 the Company successfully refinanced its two revolving credit facilities (RCFs) (resulting in a single £65.0m RCF with an expiry date of 12 December 2025).

CAPITAL EXPENDITURE

2023/24 is the fourth year of AMP 7; during this year we invested £22.4m (2023: £25.3m) in our capital investment programme.

Key projects include:

- £6.3m (2023: £6.0m) investment in the ongoing replacement of pipes in our network
- £1.1m (2023: £1.9m) to improve our resilience mains (to ensure water can be efficiently moved around our supply area now, and in the future)
- £0.4m (2023: £0.3m) was spent on extending our network into new housing developments
- £3.0m (2023: £7.9m) was invested in replacing and upgrading our treatment works, pumping stations, service reservoirs and other operational sites
- A further £4.7m (2023: £3.8m) was invested in our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends
- £1.6m (2023: £1.4m) was invested in IT to maintain our software, hardware and cyber security, and enhancement to improve our customer journey.
- Other expenditure on capex including facilities, laboratories and other capitalised charges totalled £5.3m (2023: £4.0m).

The capital expenditure noted above is based on an accruals basis for work done in the year. This reconciles what is presented in the cashflow forecast by adding £0.3m of expenditure where work has been completed but not yet paid. The reconciliation is show in the table below:

Capital Investment (based on work done in year)	£22.4m
Adjustment for capex incurred but not yet paid	(£0.3m)
Property, plant and equipment (PPE) and intangibles spend shown in the cashflow statement	£22.1m

PENSION SCHEME

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

The accounting valuation has been updated to 31 March 2024 by our independent actuary, Lane Clark and Peacock. The scheme remains in surplus with a net funded pension scheme asset of £6.4m (net of pension related deferred tax) (2023: £9.2m (excluding deferred tax)).

The Company also has an Unfunded Pension Scheme which has a liability of £1.3m at 31 March 2024 (2023: £0.8m).

CASH AND NET DEBT

The Company held cash and cash equivalents at the year end of £48.3m (2023: £24.0m) net of overdrafts. At the end of March 23 £15m of overdraft was drawn and subsequently repaid in May 23. Therefore at the end of March 23 £38m of cash was included in the bank, with £24m being net of overdraft amounts.

Cash from operating activities fell by £6.9m to £1.3m (2023: £8.2m) due to the impact of the cost of living crisis reducing the monies received from customers and higher interest rates resulting in higher financing costs paid on our loans.

The Company invested £22.1m, a decrease of (11%) or £1.2m on the capital programme compared to prior year (2023: £23.3m).

The Company had net cash receipts of £44.6m, an increase of £29.9m (204% increase) compared to the prior year from financing activities. This included £22m of equity received from our shareholders, £40m of proceeds from our new private placement debt with Phoenix and a partial repayment of £10.0m of our revolving credit facility in the year.

The Company's total borrowings at 31 March 2024 (net of set up fees) is £320.0m (2023: £294.9m) an increase of £25.2m (9%).

This was primarily driven by the increase in our index-linked bond due to high inflation from £201.1m to £219.5m, new debt of £40m through our private placement with Phoenix and a reduction of £10m in the use of our revolving credit facility which was £65.0m at the year end (2023: £75m).

FINANCING RATIOS AND CREDIT RATING

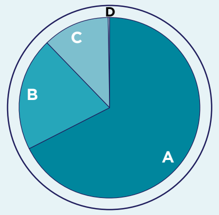
During the year we have continued to have constructive conversations with the credit rating agencies, with our focus on financial and operational resilience during another challenging year.

This is magnified by the impact of high inflation on our index-linked bond.

In accordance with our £100.0m index-linked bond we have restrictions on our level of gearing and interest cover ratios (ICR). Our gearing, as measured by the bond agreement, is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. The RCV is indexed by movement in RPI and CPI. The ratio as defined by our bond was 77% (2023: 77%), within the 80% permitted by our covenants. According to the restrictions on our index-linked bond we are required to enter a new AMP period at 75% gearing, which based upon our business plan will require additional equity. The significant increase in RPI inflation has had a material impact on our gearing due to the indexation charge on our long-term bond.

Our interest cover for the year was 2.7x (2023: 4.5x), within the minimum level of 1.3x according to our bond. The reason for the decline is that in the prior we had a more stricter interest cover ratio in addition to the one presented. In the prior year the Company borrowed more in order to meet the stricter covenant.

TYPES OF DEBT HELD WITHIN SESW



A ILB (RPI linked)	**£219.5m**
B Revolving credit facility (Floating)	**£65m**
C Private Placement (Fixed)	**£40m**
D Debentures (Fixed)	**£0.1m**

RESILIENCE AND RISK MANAGEMENT

Maintaining resilience and managing risk are key activities embedded in our culture to ensure that we meet customers' expectations of an uninterrupted, safe and clean water supply.

SES Water faces similar challenges to other water companies in the UK in terms of challenges arising from climate change, growing population, the political and regulatory landscape, and the need to protect the environment. Risk is inherent in both our day-to-day operations and the strategic decisions we make in pursuit of our future goals set out in our Long-Term Delivery Strategy, our current Price Review, PR24, and as we are becoming a part of the Pennon Group. The Audit Committee sets our risk appetite which provides the guardrails for how much strategic, operational, financial and regulatory risk we are willing to take while driving our business forward.

Resilience and risk management are an integral part of our Company's management systems and procedures that underpin the delivery of our Company policies. We implement a structured approach to risk management, designed to identify emerging and changing risks, and have an established risk management process that enables us to identify, assess, manage and mitigate risk in line with our business strategy. We continually monitor and ensure appropriate mitigation of the risks we face and communicate those that matter most through our governance structure. We monitor our wider resilience systems in the key areas of corporate, financial and operational resilience and have developed a framework, building on Ofwat's approach to 'Resilience in the Round' and aligned to the British Standard for Organisational Resilience, BS 65000:2014, that helps ensure that external shocks and stresses (such as those arising from the current political challenges) do not distract us from meeting the needs of the communities we serve.

Our Corporate Risk Register records and ranks risks according to the likelihood of occurrence and magnitude of impact, as well as keeping track of the actions taken to mitigate the risk.

Our principal risks are each owned and managed by a member of the Executive Leadership Team, and the Audit Committee formally reviews and challenges the register twice a year and reports back to the Board on the status of all identified risks and any additional measures that are being implemented.

Emerging new risks are assessed at an early stage so that appropriate controls are put in place. We monitor these new risks closely and they are adopted as principal risks or are incorporated into existing principal risks as appropriate. Some may be superseded by other risks or cease to be a risk as the internal or external situation changes.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of our Company.

Commentary below is provided on a selection of the principal risks to the Company prior to the adoption of mitigating measures.

Category	Ranking	Risk Description	Risk Score
Financial	A	External economic uncertainty	High / Likely
	E	Increasing customer bad debt	High / Likely
	F	Penalties for not delivering regulatory performance targets	High / Likely
Business systems	B	Cyber attack	High / Likely
	I	Non-compliance with legal obligations	Medium / Possible
	H	Failure of core applications	High / Unlikely
	K	Inability to adapt to impact of climate change	Medium / Possible
Reputation	D	Legitimacy	High / Likely
	L	Special administration measures for other companies	Medium / Possible
People	N	Reduced availability of employees	Medium / Unlikely
	C	Failure to recruit, retain and develop high-quality staff	High / Likely
Operational	J	Large-scale water supply failure	Medium / Possible
	O	Large-scale water quality failure	Medium / Unlikely
	G	Deliverability of investment plans	Medium / Likely
	M	PFAS (forever chemicals) – change in regulatory requirements	Medium / Possible

PRINCIPAL RISKS

Our principal risks are provided in the table below, grouped into categories that consider financial, business systems, reputational, people and operational impacts. We continually monitor all of our risks, and a formal register ranks them and keeps track of the effectiveness of mitigation.

RISK SCORE

Impact	Unlikely	Possible	Likely
High	X	–	!
Medium	X	–	!
Low	X	–	!

Likelihood

PLEDGES

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

Financial

Principal risk

External economic uncertainty

Reference

A

Pledge

What is the risk?

That there is a breach of our bond covenants due to interest rate and liquidity fluctuations and a failure to meet AMP 7 efficiency targets due to an elevated operational cost base and additional tax burdens. This in turn may lead to increased gearing and reduced cashflow, putting pressure on our financial resilience.

What are we doing to manage the risk?

The recent debt and equity restructuring we have performed has addressed this risk to an extent, as will the increased financial resilience that arises from being part of the Pennon Group plc.

Risk after mitigating action: Medium / Likely

Principal risk

Increasing customer bad debt

Reference

E

Pledge

What is the risk?

That there is a significant increase in customers not paying their water bills due to high levels of inflation and the escalating cost of living, resulting in decreased cashflow.

What are we doing to manage the risk?

New improved billing processes to ensure that timely payment reminders are issued have been adopted, and there continues to be a multitude of options available to support customers in paying their bills, and active engagement with those seeking support through our Customer Engagement Support Officers. A dedicated Debt Board has been established to regularly review progress with the delivery of the debt recovery strategy, and expert partners are engaged to assist with the collection programme.

Risk after mitigating action: High / Likely

Principal risk

Penalties for not delivering regulatory performance targets

Reference

F

Pledge

What is the risk?

That there are significant financial penalties for not meeting regulatory performance targets, resulting in reduced revenue and negative reputation.

What are we doing to manage the risk?

There are clear lines of accountability and responsibility for each commitment, and the resources and funding needed to deliver the required performance is regularly reviewed at monthly performance meetings and/or dedicated forums.

Risk after mitigating action: High / Likely

PRINCIPAL RISKS CONTINUED

RISK SCORE

Impact	Unlikely	Possible	Likely
High	X	–	!
Medium	X	–	!
Low	X	–	!
	Likelihood		

PLEDGES

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

Business systems

Principal risk

Cyber-attack

Reference

B

Pledge

What is the risk?

Third party gaining access to and control over Company Supervisory control and data acquisition and/or other operational control systems with the potential to impact water quality or sufficiency of supply, or accessing personal data held on billing, HR or other corporate systems, network and storage drives/cloud.

What are we doing to manage the risk?

We have multiple layer security in place to protect against a cyber-attack. This includes controlled access to Company systems, regular testing of security measures, as well as staff awareness training and participation in expert forums. We also undertake a review, submission and auditing of our annual Cyber Assessment Framework (CAF) return and action plan to the DWI.

Security software is permanently scanning for attempts at unauthorised external access. We have an IT Management KPI on security breaches in place that is reported in monthly Board reporting, alongside regular monitoring of situations and actions by the Audit Committee. We also arrange regular third party expert penetration testing as well as continued security updates and staff awareness briefings.

Awareness of impact of unauthorised malicious access is communicated to all relevant staff through role-specific training (for operational, customer and employee-related information), and is reflected in departmental operating manuals. Key staff (including the corporate IT team, and SCADA specialists) have specialist skills and more intensive training. The Board take regular and more detailed periodic reports (e.g. on data protection).

Contingency plans include the backup of data, the availability of a Disaster Recovery Centre (also tested), documented and tested Crisis Management procedures, and Cyber Managed Detection and Response Service.

Risk after mitigating action

!

Principal risk

Non-compliance with legal obligations

Reference

I

Pledge

What is the risk?

Failure to comply with legal obligations lead to enforcement action, fines and reputational damage.

What are we doing to manage the risk?

Employees have tailored training programmes to ensure they are aware of all relevant legislation and the Company policies, processes and procedures that are in place to ensure we comply with our obligations, and an internal audit process reviews compliance with those requirements.

Risk after mitigating action

–

Principal risk

Failure of core applications

Reference

H

Pledge

What is the risk?

With the dependence on systems to manage our customer information, including billing, and our day-to-day activities, such as operational response and financial management, it is imperative that they are accessible at all times.

What are we doing to manage the risk?

We have multiple technologies and security provisions to manage the risk of core system failures, including new, modern cloud based technologies and environments, which are continuously monitored and backed up, with sophisticated global, and multi-site fail over coverage. In addition, robust operating controls are regularly and externally tested and audited, including network and connectivity resilience, systemised financial and anti-fraud controls, as well as data security and validation monitoring.

In the past year we have further invested and implemented technologies and resources to improve our security posture, including a new Security Operations Centre with advanced threat detection and response management.

Risk after mitigating action

X

Principal risk

Inability to adapt to impact of climate change

Reference

K

Pledge

What is the risk?

Failure to meet the expectation of the regulators in ensuring that we are proactively monitoring and responding to the changing risks of drought, flooding, raw water quality, biodiversity etc. brought about by climate change.

What are we doing to manage the risk?

We have multiple separate work streams designed to address the potential physical risks to resource availability and quality, including catchment management, Water Resources Management Plan and Long-Term Delivery Strategy and have restructured our teams to better align with the changing regulatory requirements.

Risk after mitigating action

–

Reputation

Principal risk

Legitimacy

Reference

D

Pledge

What is the risk?

The reputation of SES Water, and the wider industry, is tarnished by politics, media and regulatory pressure resulting in damage to investor appetite.

What are we doing to manage the risk?

We work hard to directly promote our positive Company performance with our customers and wider stakeholders, and Water UK co-ordinate industry-wide communications.

Risk after mitigating action

!

Principal risk

Special administration measures for other companies

Reference

L

Pledge

What is the risk?

If other water companies are put into special administration, there is a risk that it will be more difficult to attract equity and debt investment, borrowing costs may escalate, and there could be negative impacts on our supply chains.

What are we doing to manage the risk?

We cannot levy any direct controls on this risk, but separate controls are in place to ensure wider financial resilience. This has included risk mitigation via recent debt and equity re-financing, together with the additional financial resilience and supply chain strength that will arise following our recent acquisition by the Pennon Group plc.

Risk after mitigating action

–

People

Principal risk

Reduced availability of employees

Reference

N

Pledge

What is the risk?

That we may experience a shortage of human resources, leading to an inability to operate effectively and continuously deliver high-quality water for our customers, meeting all of our regulatory obligations, due to an event that is outside of Company control, such as the COVID-19 pandemic.

What are we doing to manage the risk?

We have measures in place to ensure that the Company is monitoring any emerging concerns and adopting appropriate event management that may include enhanced communications with employees, access to mental health first aiders, ensuring employees are equipped for home working and provision of personal protective equipment.

Risk after mitigating action

X

Principal risk

Failure to recruit, retain and develop high-quality staff

Reference

C

Pledge

What is the risk?

That we experience a shortage of human resources, leading to an inability to operate effectively and continuously deliver high-quality water for our customers, meeting all of our regulatory obligations, due to general market conditions and skill shortages or poor employee engagement.

What are we doing to manage the risk?

To promote the recruitment and retention of employees we ensure our employee benefits and conditions of employment remain competitive, and we support regular employee engagement, training and continuous professional development. We have a preferred suppliers list of agencies so we can fill short-term skills gaps with agency staff/consultants. We have also reviewed our recruitment processes to ensure we are running them effectively and efficiently, as well as ensuring we reach a wide range of talent in the labour market.

Risk after mitigating action

!

PRINCIPAL RISKS CONTINUED

Operational

Principal risk	What is the risk?	Risk after mitigating action
Large-scale water supply failure **Reference** J **Pledge**	**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 and the need to provide alternative water supplies. **What are we doing to manage the risk?** We have established maintenance regimes to ensure optimal asset availability and are in the process of improving resilience across the Company area through the provision of additional strategic mains. Work is ongoing to roll out our intelligent water network. This uses Vodafone's next generation Narrowband Internet of Things (NB-IoT) 5G network which has deeper coverage underground and within buildings; and advanced loggers that leverage the benefits of the NB-IoT network by recording and providing more accurate, consistent and detailed data so we better understand how our network is performing. We then apply Aquasuite software, which has Artificial Intelligence (AI) and machine learning capability. It takes signals from the network sensors, performing in near realtime, predictive analysis to compare expected with actual performance. Together this combination of new technologies will revolutionise how we monitor, react and carry out maintenance on our network so we reduce the risk of bursts and supply failures, minimising disruption to customers.	
Large-scale water quality failure **Reference** O **Pledge**	**What is the risk?** That we experience an operational incident, or a failure of internal processes, resulting in the distribution of contaminated water to consumers that then causes illness in the community or is rejected by consumers. **What are we doing to manage the risk?** We have established maintenance regimes to ensure optimal asset availability and are in the process of improving resilience across the Company area through the provision of additional strategic mains. Continuous monitoring ensures deficiencies are promptly identified and addressed. We have multiple stage continuous on-line water-quality monitoring and automatic shutdown systems at our treatment works and established instrument checking and calibration programmes delivered by competent technicians with regular system testing and laboratory monitoring. Sites are audited and Drinking Water Safety Plans regularly reviewed to ensure water-quality risks are fully in control.	X
Deliverability of investment plans **Reference** G **Pledge**	**What is the risk?** There is a concern that demand for both equipment and suitably trained/competent resources may outstrip the supply, causing extended lead-times and increased costs, impacting project and performance commitment delivery. **What are we doing to manage the risk?** Framework contracts are already in place for the vast majority of commonly used and critical materials and goods. Work is also progressing to identify ways in which our demand for these goods can either be reduced or delayed through operational adjustments of planning of work to later dates (when supply/demand back in balance). SES Procurement captures intelligence from across the sector on supply chain impacts on a fortnightly basis on behalf of Water UK event team. The same team also collates intelligence and evidence of potential and live price rises, holding this centrally. Issues are raised and discussed regularly in monthly performance meetings. Specific subject matter meetings take place alongside this, including for example chemical optimisation, and network planning.	!
PFAS (forever chemicals) – change in regulatory requirements **Reference** M **Pledge**	**What is the risk?** That the water-quality regulator adopts new drinking water standards for PFAS that are far lower than those currently set in DWI guidance, thereby requiring a review and potential future investment in water source management or treatment processes that is as yet unfunded, with interim reputational concern from customers and stakeholders. **What are we doing to manage the risk?** We have completed catchment risk assessments for PFAS and are verifying these with water-quality monitoring and catchment walkovers, where relevant to do so, in line with the current regulatory guidance. We will proactively consider options to minimise PFAS concentrations and future mitigation that may be required in the event of tightening standards.	

GOVERNANCE OF RISK MANAGEMENT

BOARD

AUDIT COMMITTEE

- Bi-annual review of Corporate Risk Register
- Ad hoc deep-dive reviews of principal and emerging risks to understand the full nature of the risk and the controls adopted to reduce the impact and likelihood of occurrence

EXECUTIVE LEADERSHIP TEAM

- Formal bi-annual review of Corporate Risk Register considering overall operational performance, incidents and events, outcomes of audits and internal process reviews, changes in regulatory requirements, impacts on finances, significant employee matters, industry reputation and external influences of preceding six months. Includes a review of the effectiveness of mitigating (or control) actions and emerging risks
- Monthly performance meetings with the wider senior leadership team include consideration of actual and potential risk, including risk to performance commitment delivery, operational integrity, impact on consumers, reputation and finances

COMPANY POLICIES

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

QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM AND PROCEDURES

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

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

INTERNAL CONTROLS INCLUDING STAFF TRAINING, PROJECT MANAGEMENT, AUDIT AND INSPECTION

VALUES AND PLEDGES

TCFD RISKS AND OPPORTUNITIES

RISK MANAGEMENT – CLIMATE CHANGE RISKS AND OPPORTUNITIES SUMMARY

As noted on pages 70 and 71, climate change is one of our principal risks. Stakeholder interest across the water sector continues to focus on various aspect of climate change on water companies' operations, such as flooding risk and the use of energy to operate our treatment works and transport water around our network. This focus is reflected in our regulator and customers views, as noted in the recent PR24 Business Plan submission.

We have considered climate risk and opportunities as detailed in the table below. This work, which is part of the external Climate Change adaptation review submitted to Defra, provides an initial view of the impact of such climate risks and opportunities and will be considered further as we progress our overall Environmental, Social and Governance (ESG) materiality work in 2024/25. The Board has used this assessment to inform our long-term strategic thinking, as recently evidenced in our Long-Term Delivery Strategy submitted to Ofwat, and therefore ensuring linkage between the various strategic planning strands of our short and long-term plans.

KEY

Time horizon	Short term	Medium term	Long term	Short term 0-5 years, Medium term 5-10 years, Long term >10 years
Annual impact	Low	Medium	High	
Scale 1-5	1	2	3	4	5

Risk/opportunity	Cause of financial risk/opportunity	TCFD type	Type of financial impact	Time horizon	Likelihood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential impact (annually)
Risks from drought and high/peak water demand	High/peak demand due to heatwaves	Physical	Increased operating costs	Short term	3	3	Low
	Drought impacting water supply	Market	Increased operating costs	Medium term	2	4	Low
	Climate-induced land-use change leading to high/peak demand	Market	Increased operating costs	Long term	3	2	Low
	High temperature and low precipitation leading to reduced abstraction allowance	Market	Increased operating costs	Long term	2	3	Low
	Wildfires and urban fires increasing water demand	Market	Increased operating costs	Medium term	3	2	Low
Risks to water quality and natural capital	High precipitation increasing run off and pollution	Physical	Increased capital and operating costs and potential fines	Short term	4	3	Medium
	Declining natural capital due to high temperatures and low precipitation	Physical	Increased operating costs	Long term	3	3	Low
	Algal blooms due to high temperatures	Physical	Increased operating and capital costs	Medium term	4	2	Low
	Increased invasive and non-native species driven by high temperatures	Physical	Increased operating costs	Medium term	3	2	Low
	Changing climate driving land-use change increasing pollution	Physical	Increased operating and capital costs and potential fines	Long term	3	2	Medium
	Changing climate increasing wildfires driving increased diffuse pollution	Physical	Increased operating and capital costs and potential fines	Long term	3	2	Low

Risk/opportunity	Cause of financial risk/opportunity	TCFD type	Type of financial impact	Time horizon	Likelihood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential impact (annually)
Risks from flooding and erosion	High precipitation causing river, surface water and/or groundwater flooding of assets	Physical	Increased operating and capital costs	Short term	3	3	Low
	High precipitation causing river bank erosion impacting assets	Physical	Increased operating and capital costs	Long term	3	3	High
Risks from subsidence	Subsidence causing damage to assets	Physical	Increased capital costs		4	3	High
	High temperature and low precipitation leading to failure of earth impounding reservoir	Physical	Increased operating and capital costs and potential fines		1	4	Medium
Risks from failure of interdependencies	Climate-induced disruptions to energy and telecoms	Market	Increased operating costs	Long term	4	2	Low
	Disruption to supply of critical materials and equipment	Market	Increased operating costs	Short term	3	3	Low
Risk of household water supply interruptions	Extreme weather causing failures in production network	Physical	Increased operating and capital costs	Short term	3	2	Medium
	Extreme weather causing failures in distribution network	Physical	Increased operating and capital costs and potential fines	Short term	3	3	Medium
	High temperatures causing assets to fail in production and distribution networks	Physical	Increased operating and capital costs and potential fines	Long term	3	2	Low
	Wildfires causing damage to assets	Physical	Increased operating and capital costs	Short term	3	2	Low
Opportunity of using innovative approaches to construction of future assets	Replacement of current assets with lower emissions or environmentally sustainable options	Physical	Lower operating costs and elimination of high capital costs	Medium term	3	3	Medium
Opportunity to be more energy efficient	Sourcing of more energy-efficient solutions for managing treatment works	Physical	Lower operating costs and elimination of high capital costs	Medium term	3	3	Medium

The Strategic Report was approved by the Board of Directors on 10 July 2024 and signed on its behalf by Paul Kerr, Chief Financial Officer

UK CORPORATE GOVERNANCE CODE INDEX DIAGRAM

The diagram below sets out where the key content can be found in this report:

1

BOARD LEADERSHIP AND COMPANY PURPOSE

The role of the Board is to provide leadership and to review the overall purpose and strategic development of the Company. The purpose of the Company is to harness the potential of water to enhance nature and improve lives 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. We believe it's not just our duty to supply water, but to use it as a force for local good. That's why we are doing all we can to protect, improve and enrich our natural environments, for our customers and generations to come. 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 74 to 76

2

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 a clear division of responsibilities between the Chair and Chief Executive Officer, and the roles of the Chief Financial Officer and Company Secretary, together with the senior independent non-executive director, are well defined.

Read more on pages 77 to 79

3

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 Chair. 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 87 to 89

4

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 an effective control environment, risk management and information systems, clearly defined control procedures and a regularly reviewed monitoring system.

Read more on pages 90 to 94

5

REMUNERATION

The Remuneration Committee of the Board is key for providing a remuneration framework for the Board members and senior management team, including the design of targets on bonus and long-term incentive plans, and their ongoing evaluation. In particular, the Committee has focused on implementation of the executive remuneration policy in light of overall external sector-wide focus, strengthening the link between executive pay and delivery for customers, in both the areas of annual bonus and long-term incentive plans.

Read more on pages 97 to 109

6

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, should be independent non-executive directors. We have three independent non-executive directors and comply with the Ofwat objective in this area. With the resignation of the previous shareholder representatives from the Board following the Pennon Group plc acquisition on 10 January 2024, we also complied with Provision 11 at year-end.
- The Board appointed Dave Shemmans as Chair of the Company with effect from 24 March 2022. Dave's appointment will run until completion of the PR24 process, which is anticipated, for the purpose of this appointment, to be in December 2024. As such, Dave's term as Chair will end on 31 December 2024, pending further discussion with Pennon Group plc following the acquisition of the Company. Dave's total period as a director of the Company would therefore be ten years and four months, compared with the normal limit of nine years as noted in the Nominations Committee report.
- Provision 38 of the Code states 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 100 in the remuneration report.

Read more on pages 87 to 89

OUR BOARD OF DIRECTORS

Up to the date of acquisition of the Company by Pennon Group plc, representatives from our previous shareholders – Ken Kageyama and Kenji Olda – were on the Board of SES Water plc. Ken and Kenji resigned at point of acquisition by Pennon Group plc on 10 January 2024. Following the CMA clearance of the acquisition of the Company by Pennon Group plc on 14 June 2024, the following directors from Pennon Group plc were appointed to the Board of SES Water – Susan Davy, Gill Rider and Andrew Garard.

Committee membership key

- Committee chair
- ES Energy Strategy
- HSW Health, Safety and Wellbeing
- R Remuneration
- A Audit
- G Governance
- N Nomination

Dave Shemmans
Chair, non-executive

Committee membership
N G

Skills and experience

Dave was elected Chair in March 2022 having been a non-executive director on the Board since 1 September 2014. Dave joined Ricardo plc, a global engineering consultancy, in 1999 and was Chief Executive up until 2021. 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.

Ian Cain
Chief Executive Officer

Committee membership
ES G HSW N

Skills and experience

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

Paul Kerr
Chief Financial Officer & Company Secretary

Committee membership
ES G

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 Group Financial Controller. Prior to that he worked for PricewaterhouseCoopers LLP (PwC) for a number of years, including ten years in San Francisco, and is a member of the UKWIR Board.

Rebecca Wiles
Non-executive director

Committee membership
HSW A N R ES

Skills and experience

Rebecca is a geoscientist by background and brings more than 30 years experience working in the energy industry for BP. During her career, she has held a number of executive roles most recently leading technology innovation, development and early deployment. She joined the SES Board on 26 May 2022.

Murray Legg
Senior non-executive director

Committee membership
A ES G N R

Skills and experience

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

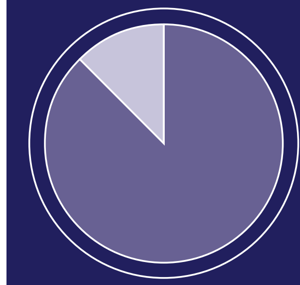
Jon Woods
Non-executive director

Committee membership
R A G N

Skills and experience

Jon is a commercial leader specialising in sales and marketing, who has spent most of his career with some of the world's most successful food and drink companies – Cadbury Schweppes, AB Inbev and The Coca-Cola Company. Jon currently serves as Global ESG Vice President of Coca-Cola. Jon joined the SES Board on 1 March 2016.

Board composition
as of 31 March 2024



Gender split of directors

A Men	7
B Women	1

Length of tenure of non-executive directors

<3 years
1
Rebecca Wiles

3-9 years
3
Murray Legg
Jon Woods
Dave Shemmans

>9 years
0

Strategic Report
Governance
Financial Statements
Group Information

THE BOARD'S CODE ON PRINCIPLES OF GOOD GOVERNANCE

The Board has a Code on principles of good governance (the "Code") and assesses compliance with the 2018 UK Corporate Governance 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 public company in the UK, focusing exclusively upon the long-term interests of the Company. Subsequent principles in this Code define what this overall principle means in particular areas.

The Board considers it complies fully with the principle of governing the Company in accordance with the standards applicable to an independent public company in the UK apart from the exceptions highlighted on page 73.

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, ongoing feedback from Ofwat on implementation of these objectives, together with updates to the Code and related guidance from the Financial Reporting Council (FRC). Final decisions affecting the Company have continued to be made by the Board.

2. TRANSPARENCY

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

The Company has made disclosures in this Annual Report which meet the requirements of the Code. The terms of reference of its main Board committees are published on the Company's website. The relationship of the Company with its associated companies is set out on page 7.

3. BOARD AND SENIOR MANAGEMENT SKILLS

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

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

All new directors receive appropriate induction. The Board formally reviews its performance every year, utilising an external facilitator when considered appropriate to enable this review. The progress on the actions arising from this year's Board effectiveness review is provided on page 81.

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

4. INDEPENDENT REPRESENTATION

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

The Board has three non-executive directors who are independent of management and shareholders, one of whom has been appointed as the senior independent non-executive director able to act inter alia as a channel for Board communication with regulators. The Board also comprises two executive directors, two shareholder representatives and a chair. Independent non-executive directors continue to form the largest single group on the Board.

5. BOARD COMMITTEES

The Board will maintain as a minimum Nomination, Audit and Remuneration committees on which independent non-executive directors will form a majority, and also has Customer; Energy; Pensions; Governance; Health, Safety and Wellbeing; Environmental, Social and Governance (ESG); PR24 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 76, the principles of which still remain relevant and applicable post the Pennon Group plc acquisition.

The Board considers it has fully complied with the main principles of the Code and its application. Any reasons for not applying specific provisions of the Code are described on page 73.

CONSIDERATION OF OFWAT'S BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE OBJECTIVES

The Board continues to be heavily involved in ensuring the Company adheres to the 2019 BLTG objectives from Ofwat. This includes building on the substantial work performed in previous years to enhance the internal and external transparency of Board matters and key decisions throughout the organisation, and takes into account the recent feedback from Ofwat in this area. The Board's assessment of the performance against these Ofwat leadership objectives is provided in the Annual Performance Report 2024.

CONSIDERATION OF OFWAT'S CUSTOMER-BASED LICENCE CONDITIONS

The Board has been involved in the review and approval of the customer-based licence conditions implemented by Ofwat in early 2024, and have supported the clarity and focus provided by such licence updates. The Board's assessment of compliance against these customer-based principles in our licence is provided in the Annual Performance Report 2024.

ROLE OF THE BOARD

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

The matters reserved for Board approval are as follows:

STRATEGY AND MANAGEMENT, INCLUDING:

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

STRUCTURE AND CAPITAL, INCLUDING:

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

FINANCIAL REPORTING AND CONTROLS, INCLUDING:

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

MAINTENANCE OF A SOUND SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT, INCLUDING:

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

APPROVAL OF SIGNIFICANT PROJECTS AND CONTRACTS ABOVE AGREED LEVELS, INCLUDING:
- Major capital projects (above the levels of authorisation delegated to management)
- Contracts which are material strategically or by reason of size, entered into by the Company in the ordinary course of business, including new borrowings facilities
- Contracts of the Company not in the ordinary course of business, including any material foreign currency transactions and acquisitions or disposals
- Investments in other businesses, including the acquisition or disposal of interests of shares of any company or the making of any takeover offer.

BOARD MEMBERSHIP AND OTHER APPOINTMENTS, INCLUDING:
- Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee
- Ensuring adequate succession planning for the Board and senior management
- Appointments to the Board, following recommendations by the Nomination Committee
- Selection of the Chair of the Board and the Chief Executive Officer
- Appointment of the senior independent non-executive director
- Membership and chairship 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 Chair and the Chief Executive Officer
- The division of responsibilities between the Chair 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 Business Ethics
- Equality, Diversity and Inclusion policy
- Health and Safety policy
- Environmental policy
- Corporate Social Responsibility policy
- Charitable Donations policy.

OTHER MATTERS, INCLUDING:
- Approval of any circulars, prospectuses or listing particulars
- Approval of press releases concerning matters decided by the Board
- The making of political donations
- Approval of the appointment of the Company's principal legal advisors
- Prosecution, defence or settlement of litigation, involving above £1m 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 Chair of the Board and the full Board. In 2023/24, this has included shareholders' views on the strategic review of the business which concluded with the sale of the Company to Pennon Group plc.

ROLES AND RESPONSIBILITIES

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

CHAIR – DAVE SHEMMANS 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 (up to 10 January 2024 upon acquisition by Pennon Group plc) contributions
- Ensuring directors receive accurate, timely and clear information.

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

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY – PAUL KERR IS RESPONSIBLE FOR:
- Under the direction of the Chair, ensuring effective information flows to the Board and its committees, and between senior management and non-executive directors
- Advising the Board, through the Chair 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 Chair 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 Chair's performance
- Leading engagement with and oversight of engagement with the financial and non-financial auditors.

COMPOSITION OF THE BOARD

The Board benefits from the varied skills and experience of its independent non-executive directors and Chair. Further details of the composition of the Board are detailed in the Nomination Committee report on pages 87 to 89.

The Company has a policy that a register of directors' interest is maintained and updated on a continuous basis by the Company Secretary. This register is presented and reviewed at the start of each Board meeting to ensure any conflicts of interest are readily identified and addressed. The proactive consideration of this register and the emphasis placed by the Board Chair on the accuracy and consideration by all Board members of their external interests, means any potential conflicts can be addressed in advance if needed. In 2023/24, no such conflicts of interest were identified.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Significant commitments of the directors held outside of the Company are disclosed prior to appointment and any changes are disclosed over the duration of the appointment. Current appointments are disclosed on pages 74 and 75. All directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and the position in practice is reviewed as part of the annual review of Board effectiveness.

Dave Shemmans was considered fully independent by the Board upon his appointment as a non-executive director in September 2014, although under the related FRC code he was not considered independent when appointed to Chair of the Board on 24 March 2022.

The Chair 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 employees. 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 DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH STATUTORY DUTIES OF S.172(1) OF THE COMPANIES ACT 2006

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

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

THE BOARD'S CODE ON PRINCIPLES OF GOOD GOVERNANCE CONTINUED

HOW DOES THE BOARD ENGAGE WITH STAKEHOLDERS?

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

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

As a result of these activities, the Board has an overview of engagement with stakeholders and other relevant factors, which enables the directors to comply with their legal duty under s.172 of the Companies Act 2006.

ENGAGEMENT IN ACTION

There have been various examples of this level of engagement throughout the year by the Board. This has included site visits with employees, engagement with industry and regulator representatives (such as Ofwat), and participation by our non-executives at industry forums. This year the best examples are the Board's involvement in customer research and consultation in the preparation for our PR24 Business Plan and our employee engagement.

ENGAGEMENT IN ACTION – PR24:

The Board played an active role in the development and oversight of the Company's emerging Long-Term Delivery Strategy (covering the period 2025-50) and its PR24 Business Plan (covering 2025-30). Both these Ofwat submissions were submitted in October 2023.

A specific PR24 Board committee was set up in December 2021, consisting of the full membership of the SES Water Board, supplemented with external advisors, and the majority of the internal PR24 team. The PR24 Board met formally approximately every six to eight weeks to review progress of the programme and provide challenge and sign-off as required. All key strategic decisions related to the Business Plan were proposed, discussed and agreed by the Board. There existed a detailed Board interaction plan which encompasses all key milestones and submission requirements ahead of the final submission.

Each PR24 workstream has a non-executive director allocated to it to assist with development of the programme and enable a more thorough deep dive into programme content when required.

A separate PR24 Steering Committee was also established in January 2022, which met monthly to provide additional programme oversight and guidance. The Board is represented on this committee by the CEO, the CFO and the senior independent non-executive director.

All meetings adhere to the normal Board meeting conventions in relation to documentation, minutes, and recording of actions and decisions.

To meet the specific Board governance requirements set out in Ofwat's methodology, we engaged PA Consulting to provide independent assurance over the PR24 programme on behalf of the SES Water Board.

ENGAGEMENT IN ACTION – OUR WORKFORCE:

Due to the nature of their roles within the Company, our executive directors have significant daily interaction with our workforce. The non-executive directors also regularly engage directly with our colleagues via visits to our head office and our treatment works.

One of our independent non-executive directors, Jon Woods, is the Board workforce representative. In this role, Jon attends at least one meeting per year with our employee representative forum (the Joint Negotiating and Consultative Committee or JNCC), in addition to his other regular interactions with the workforce (such as his role on the Customer Committee and ESG Committee).

From the JNCC discussions, Jon continued to provide the Board with a view – separate from executive management – of the culture of the business and workforce, the areas of concern that management is working to address, and the successes and morale of the workforce during the year.

Jon's work with the JNCC continues to allow the Board to closely monitor and assess the culture of the Company, providing the Board with assurance in particular matters, such as health, safety and wellbeing, and the continued importance of operational and regulatory compliance. His work has allowed the Board to ensure that due regard has been provided on colleague interests.

Such decisions in the year have included approval of the new one-year pay deal, an increase to the annual Company Bonus, and an additional day of annual leave (to be taken in 2024/25). While some 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 EFFECTIVENESS

The most recent internal review of Board effectiveness was conducted in April–May 2024, led via the Chair, Dave Shemmans, with results presented to and discussed at the Board meeting in June 2024. This internal effectiveness review confirmed the positive progress of the Board on the matters previously raised by the preceding external review and provided a series of recommendations for Board focus in 2024/25.

The most recent external review of Board effectiveness was facilitated in 2020/21 by Independent Audit Ltd during April and May 2021. The recommendations from the 2020/21 external Board effectiveness review have all been addressed, as documented in prior Annual Reports.

The actions arising from the 2023/24 internal Board effectiveness review are documented below.

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 the main committees' terms of reference are available from the Corporate Governance section of the Company's website.

TRAINING AND DEVELOPMENT

Directors are primarily responsible for their personal development and for compliance, where appropriate, with the continuing professional development requirements of their respective professions. The Board also receives regular updates on legislative, regulatory and other governance developments, including briefings from external specialists as appropriate. Such updates have been supplemented in 2023/24 through a formal Board training schedule, which has included access to various online training modules, together with specific training on Competition and Markets Authority (CMA) matters given the results of the strategic review. In addition, the Board periodically visits the Company's Water Treatment Works and enquires into operational policies, practices and procedures.

BOARD ARRANGEMENTS

The Board met six times during 2023/24 to conduct regular Board business, in addition to five separate meetings to deep dive on specific topics, including preparation for PR24. Committees met as required and considered regular and ad hoc business. Attendance at meetings by directors is summarised on page 83.

The Board has also established ad hoc committees, chaired by independent directors, to consider key risk items, including the strategy for power purchases (Energy Strategy Committee), for managing the Company's exposure to risks associated with the defined benefit pension scheme (Pensions Risk Management Committee), for considering the way in which the Company should be financed in the future (Financing Committee), for health, safety and wellbeing matters (Health, Safety and Wellbeing Committee), an ESG Committee and a Governance Committee to consider recent requirements from both Ofwat and the FRC in the area of Board Leadership, Transparency and Governance (BLTG). In addition, the Board utilised the Price Review Committee (PR24 Committee) in light of the PR24 Business Plan submission.

These committees are chaired by independent non-executive directors and comprise non-executive and executive directors with such other senior executives and external advisors as are appropriate for the matters to be considered.

Separate panels, independently chaired – the Customer Scrutiny and Environmental Scrutiny Panels – continue to operate to constructively challenge the Company on its customers and environmental ambitions and performance respectively.

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 and emerging risks faced by the Company
- The systems have been in place for 2023/24 and up to date of approval of the Annual Report and accounts
- The systems are regularly reviewed by the Board
- The systems meet the FRC 2014 guidance on these matters.

The Board has confirmed that the Company has complied with its system of internal controls in the year, noting that controls over Guaranteed Service Standards and Social Tariffs were strengthened in the last two years. Improvements in controls over major contracts and aspects of revenue were actioned by management in 2023/24.

ACTION POINTS ASSOCIATED WITH 2023/24 BOARD EFFECTIVENESS REVIEW

Action:
Board structure: Review the structure of the Board and associated responsibilities following the recent CMA approval of Pennon's acquisition of the Company
Board content: Enhance the content of Board agendas and papers to include a greater focus on customer feedback, health and safety initiatives, financial resilience, operational delivery plan status and digital projects
Deep dives: Reintroduce a wider set of Board deepdive sessions focused on emerging risks
Financial performance: Increase Board challenge with management on overall financial performance, including improvements in revenue and cost forecasting and cash collections

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 delegations of authority, and also ensured key business process controls are in place, such as balance sheet reconciliations and monitoring budgets to actual. The Company has a clearly defined policy on whistleblowing, which is detailed in the employee handbook, and includes access to independent and confidential advice. Murray Legg, as senior independent non-executive director, has responsibility in the first instance for managing whistleblowing matters. The Company's Code of Conduct and Business Ethics policy, which has been approved by the Board, has been drawn to the attention of all employees and published on the Company's intranet.

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 The Board has completed a robust assessment of the Company's emerging and principal risks.

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 cashflow 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 Audit Committee considers the need for a dedicated internal audit function. The Quality and Compliance function was established in 2014 and routinely conducts internal environmental, quality, health and safety and security audits across all areas of the business, alongside a programme of internal compliance audits that focuses on perceived areas of risk, as identified and agreed annually with the Audit Committee. The outcomes of audits and the forward programme are reviewed through quarterly updates to the Committee. While the monitoring and control arrangements that operated during the year are appropriate, as noted above, areas for improvement have been identified and actioned in 2023/24 to improve controls over revenue and major contracts. 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.

Board attendance record 2023/24

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Murray Legg	12/12	4/4	4/4	2/2
Dave Shemmans	12/12	n/a	4/4	2/2
Jon Woods	11/12	4/4	4/4	2/2
Rebecca Wiles	12/12	4/4	4/4	2/2
Kenji Oida	9/12	n/a	n/a	n/a
Ken Kageyama	9/12	n/a	n/a	n/a
Paul Kerr	12/12	n/a	n/a	n/a
Ian Cain	12/12	n/a	n/a	2/2

Tax risks are encompassed within the Company's general risk management framework (described on pages 64 to 71). 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 Annual Report and Accounts were also considered to include the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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 1 to 71.

The financial position of the Company is set out on pages 59 to 63. Note 2.26 of the financial statements on pages 137 and 138 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.

In making this assessment, the directors have noted that no repayments of the Company's long-dated bond or private placement notes are due within the next 12 months and on 12 June 2024 the Company successfully refinanced its two revolving credit facilities (RCFs) (resulting in a single £65.0m RCF with an expiry date of 12 December 2025). The directors have also noted that the Company's credit rating and outlook has remained at Baa2 stable.

In addition, the directors have noted that subsequent to the re-financing and consistent with the recently submitted PR24 Business Plan, equity support will be required in the next 12 months to ensure the Company meets its liabilities as they fall due and operates within the gearing limits set out in our long-dated bond and private placement notes.

The directors' conclusions on the going concern basis therefore reflect the recent CMA approval of the Pennon Group plc's acquisition of the Company and the commitment from Pennon Group plc (the ultimate shareholders of the Company) in the form of a letter of financial support for the next 18 months to December 2025.

The directors have assessed and are satisfied with the Pennon Group plc's ability and intent to fulfil the requirement of the support letter.

In making their going concern assessment, the directors have also considered severe but plausible downside scenarios having regard to operational matters, the ongoing high inflationary environment, the Company's forecast liquidity and the long-term bond covenants. If required the Company has a number of mitigating actions to deal with liquidity issues, including further future RCF and debt financing, re-scoping and deferral of capital projects, and the written commitment from Pennon Group plc through the aforementioned letter of support to address the downside scenarios.

SES Water (the Appointee) is the only entity within the regulatory ring-fence required by Appointee's licence.

In making their going concern assessment, the directors have considered the financing of other entities outside of the regulatory ring-fence and within the wider SES Group Holdings, and are not aware of any entity's external debt that would result in an issue with respect to SES Water's going concern status. In accordance with SES Water's licence, none of the debt outside the ring-fence is guaranteed by SES Water and there is no cross-default in SES Water's debt to the debt outside the ring-fence.

LONG-TERM VIABILITY STATEMENT INTRODUCTION

The directors have assessed the viability of the Company to March 2034, taking account of the Company's current position, performance and the potential impact of the principal risks documented in the Strategic report. The Board considers the review of long term viability to be an extension of the Company's 2024 Price Review ("PR24") business plan submission and associated financial modelling that reviews profitability and liquidity, and tests the debt linked covenants and associated headroom to operate within them.

The main purpose of performing this assessment is to ensure that the Company is financially resilient for the medium term and can withstand various severe but plausible downside scenarios.

As noted, these assumptions within this long-term viability statement are based on those assumptions in the AMP 8 business plan. These assumptions 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 plans.

PERIOD OF ASSESSMENT

The directors have determined that the period to March 2034 is an appropriate period over which to provide this viability statement. The 10 year assessment ending 31 March 2034 covers the final year of AMP 7, AMP 8 and the early part of AMP 9.

The Company has submitted its AMP 8 PR24 business plan with AMP 9 representing an extension of the AMP 8 assumptions. Whilst the Company has good visibility over the remaining year of AMP 7, the level of uncertainty increases the longer the look-forward period as the variability of potential outcomes increases over time. At this point in the regulatory cycle the company faces uncertainty on the outcome of the PR24 final determination from Ofwat.

The following key assumptions underpin the assessment:

- SES Water will be able to continue to access debt finance and capital markets to refinance our long-dated index-linked bond commencing in 2027
- Determinations of future Price Reviews are based on reasonable terms which take into account Ofwat's statutory duty to ensure that companies can finance the proper carrying out of their functions with debt and equity
- The water sector is not renationalised in a way that prejudices our financial viability.

SUPPORT

In 2023/24 £22m of equity was received to support the liquidity and gearing requirements of the Company. Further funding is required commencing 2024/25 as detailed in our business plan submission. The funding provides investment for our capital programme and would increase our financial resilience through lower gearing.

On 14 June 2024 the CMA approved the sale of the Company to Pennon Group plc. As noted above a letter of support (LOS) has been provided by our ultimate parent Pennon Group plc to December 2025. The LOS provides for the provision of financial support including equity to address gearing and operational matters including coverage for severe but plausible downside risks.

Beyond December 2025 the Board assumes that alongside ongoing financing through the debt markets that equity will be provided by our shareholder consistent at least with our submitted PR24 business plan. The company will engage with its new shareholder to further develop its medium term financing plan to take account of the implications of Ofwat's PR24 Determination expected in December 2024 (which may increase the equity requirement of the business).

The directors have assumed that there will be no change to the corporate or group structure of the SES Group Holdings Ltd (as detailed in pages 6 to 7 of this APR) that could result in an impact to the viability of the Company.

STRESS TESTING

The Company's business plan is stress tested against a number of scenarios and sensitivities which would be managed through careful risk management and identification of mitigating actions.

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

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

The directors have also tested the Company's ability to withstand the impact of various company-specific scenarios as set out below. The sensitivities (both Ofwat and company specific) are tested against the amount of headroom available on our gearing covenant and where there is little or no headroom mitigating actions are identified.

A CYBER-ATTACK THAT RESULTS IN A FINE OF 4% IMPACT OF REVENUES:

- A cyber-attack on the Company's information and operational technology systems leads to short-term asset failures and data breaches with additional opex incurred estimated at c£3m.

We have modelled that the cyber attack is short term in nature (lasting a few days). Additional opex is required to remediate the incident and compensate for the impact to customer service equivalent to 4% of turnover estimated at c£3m

Principal risks associated with the cyber-attack include:

- Delivery of poor customer service
- Loss of customer data
- Unable to operate our information and data systems to deliver operational performance
- Failure to supply water to meet customer demand.

A WATER QUALITY FAILURE:

- Operational issues lead to a significant drop in the quality of water from one or more of our water treatment works assets. This results in an interruption to water supply to a significant portion of our customer base.

We have modelled a major water quality or network incident that affects 10% of our customer base with compensation payments to customers and additional opex incurred estimated at £4.8m

Principal risks associated with a water quality failure include:

- Delivery of poor customer service
- Failure to supply water to meet customer demand
- Failure to meet our legal and regulatory obligations as a water provider.

TOTEX (OPERATING COST AND CAPITAL EXPENDITURE) OVERSPEND:

- An underestimate is made in our budgeting process of the time, effort and cost (including chemical and power costs that make up a significant proportion of opex) required to perform key activities across the Company and meet our performance commitments resulting in additional total expenditure
- 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.

We have modelled that additional expenditure is incurred (assumed at 10% of total expenditure), potentially through the need to contract with external parties, to manage daily activities estimated at c£4.0m per annum.

Principal risks associated with an underperformance of totex include;

- Failure to fund additional expenditure
- Liquidity constraints
- Adverse pressure on financial covenants.

CONTINUED IMPACT OF COST OF LIVING ISSUES

- Cost of living issues impact our customers ability to pay their water bills.

We have modelled that a further increase of 20% in our bad debt occurs where customers are unable to pay their water bills, estimated at c£1.4m increase to our bad debt provision.

Principal risks of the cost of living issues include:

- Increase in customer debt levels
- Failure to fund lower cash levels
- Liquidity constraints
- Adverse pressure on financial covenants.

LOSS OF COLLEAGUES:

- A sustained loss of colleagues due to illness or significant work-based disputes or unexpected events occur that results in key activities not being able to be performed across the Company.

We have modelled that one third of the workforce is replaced by temporary staff, therefore additional opex is required to hire and train these temporary colleagues to perform key duties estimated at c£1.0m

Principal risks associated with a loss of key colleagues include;

- Delivery of poor customer service
- Failure to supply water to meet customer demand
- Loss of company knowledge.

ADDITIONAL CLIMATE-RELATED COSTS:

- Additional funding is required to address climate-related matters, such as net zero carbon and asset enhancements in the medium term.

We have modelled that additional capital expenditure (equivalent to 2.5% of total AMP opex) is incurred when compared with forecast estimated at c£1.0m.

Principal risks of climate-related costs include:

- Failure to fund additional expenditure
- Failure to supply water to meet customer demand
- Failure to meet our legal and regulatory obligations as a water provider
- Adverse pressure on financial covenants.

REDEMPTION COSTS ASSOCIATED WITH OUR LONG-TERM BOND:

- Significant additional fees are incurred in association with the redemption and replacement of the Company's long dated bond commencing 2027 through 2031.

We have modelled that additional expenditure is incurred when compared with forecast amounts to fulfil these refinancing options. Additional redemption costs of c£2m are modeled from 2027 to 2031.

Principal risks associated with any redemption costs of our bond include:

- Failure to fund any additional expenditure
- Adverse pressure on financial covenants.

SIGNIFICANT INCREASE IN INFLATION RATES

- Our index-linked bond is increased each year by RPI; in a high inflation environment this increases the level of debt that we have and is repayable to bond holders.

We have modelled that a 2% increase in CPIH and RPI rates is assumed from Year 5 onwards compared to the Office for Budget Responsibility (OBR) inflation forecast. The increase in inflation results in a c£1.0m additional indexation charge per year.

Principal risks associated with an increase in inflation include;

- Significant increase in our gearing
- Adverse pressure on financial covenants
- A time lag before inflation is recovered through tariffs.

COMBINED SCENARIO

A combined scenario is modelled combining the above cyber-attack, operating cost overspend and the impact of higher than forecast inflation.

We continue to consider these 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 to the Company as these scenarios represent the higher categories of risk identified for the Company.

MITIGATION

On the basis of these assumptions, the headroom to raise additional debt within our covenants would be sufficient to address the above scenarios with the exception of the combined downside scenarios, a totex underpeformance and the water quality event, which would require further debt or equity funding.

Initially mitigation of these risks would be covered through the use of available cash, use of restricted cash in agreement with with the bond guarantor or by drawing down further monies on our RCF facility. During the going concern period to December 2025 the LOS provided by Pennon Group plc as part of SESW going concern assessment would be drawn upon to cover the amounts above the available funds from RCF or cash balances.

Beyond December 2025 the Board assumes that alongside management action to reduce or mitigate the risk, management will utilise restricted cash to fund operations, that additional debt will be raised through the debt markets and that any if necessary additional equity will be provided by Pennon.

CONCLUSION

The Board assumes that there will be continual access to debt markets through maintaining investment grade status.

Our index linked bond has specific covenants on interest cover and gearing, these covenants impose tight financial constraints than the metrics used by the independent credit rating agencies, which publish their own assessment of the Company's credit strength, and should be sufficient to maintain investment grade status.

Annual compliance with financial covenants is subject to external assurance and certificates of compliance with the broader covenants of the £100m index-linked bond are issued annually to the independent Controlling Finance Party.

The Company's medium term financing plan will be developed in the coming year with its new shareholder having regard, inter alia, to the outcome of PR24, the desired level of gearing and an appropriate headroom or mechanism for dealing with risk..

The implications of Ofwat's PR 24 Determination are expected in December 2024. The equity requirement may increase depending upon the outcome of the PR24 Determination.

In conclusion, the directors are comfortable that in conjunction with Pennon Group plc that a medium term financing plan will be developed that provides long term financial viability, taking into account the outcome of PR24, the desired level of gearing and providing appropriate headroom for the AMP.

STATEMENT BY THE CHAIR OF THE NOMINATION COMMITTEE

"I am pleased with the progress the Committee has made on ensuring the stability of the Board and executive management team in the last year."

The Nomination Committee met in November and March, focusing primarily on senior leader succession, talent, building capability and recruitment, and ensuring that the requisite skillsets were maintained at both Board and senior management level during the recent strategic review which concluded with acquisition of the Company by Pennon Group plc on 10 January 2024.

I am pleased with the progress the Committee has made on ensuring the stability of the Board and executive management team in the last year, which was critical in the Company's submission of its PR24 Business Plan and Long-Term Delivery Strategy in October 2023, and in the run up to the acquisition by the Pennon Group.

Looking ahead the Committee will engage with Pennon Group plc to prepare for potential changes to the SES Water Board following the CMA clearance of the merger of SES Water with South West Water on 14 June 2024.
I am delighted that Susan, Gill and Andrew from the Pennon Group plc have now joined us on the SES Water Board.

Dave Shemmans

Chair of the Nomination Committee
10 July 2024

Membership and meetings attended:

Dave Shemmans (Chair)	**2/2**
Murray Legg	**2/2**
Jon Woods	**2/2**
Ian Cain	**2/2**
Rebecca Wiles	**2/2**

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 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, among 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 in the Corporate Governance section of the Company's website.

ACTIVITIES OF THE COMMITTEE IN SUMMARY:

The Board appointed Dave Shemmans as Chair of the Company with effect from 24 March 2022. Dave's appointment will run until completion of the PR24 process, which is anticipated, for the purpose of this appointment, to be in December 2024. As such, Dave's term as Chair will end on 31 December 2024, pending further discussion with Pennon Group plc following the CMA's recent approval of the merger on 14 June 2024. Dave's total period as a director of the Company would therefore be ten years and four months, compared with the normal limit of nine years.

Dave Shemmans was considered fully independent by the Board upon his appointment as a non-executive director in September 2014, although under related FRC guidance he is not considered independent when appointed to Chair of the Board. Murray Legg, the senior independent non-executive director on the Board, independently confirmed that all Board members supported Dave's appointment, and Ofwat had no objections to this arrangement.

Dave is also the Chair of East Surrey Holdings, the parent company of SES Water and of various non-regulated companies including SES Water Services. The Board did not consider this additional role to have any implications for Dave being regarded as Chair of the SES Water Board.

Following the acquisition of the Company by Pennon Group plc on 10 January 2024 the Sumitomo Corporation and Osaka Gas shareholder representatives on the Board (Ken Kageyama and Kenji Oida respectively) resigned. I would like to thank Ken and Kenji for their considerable time and support for the Company over recent years, and for their work with the Board during the recent strategic review.

Murray Legg continues as the senior independent non-executive director and Chair of the Audit Committee of SES Water. In addition, he is Chair of the Audit Committee of East Surrey Holdings, the latter being the parent company of SES Water. The Board does not consider this additional role has any implication on Murray's role as the senior independent non-executive director of SES Water.

The Board is committed to evaluating its performance every two years, with the most recent internal evaluation being concluded in May 2024. The Board concluded during this recent review that it remained satisfied that the Nomination Committee continued to perform its duties in line with its terms of reference.

The Board Chair reviews individual non-executive director performance annually and, in turn, the senior independent non-executive director undertakes a review of the Chair's performance annually. All reviews concluded that the Chair and non-executive directors' performed strongly during the year, providing effective strategic guidance, management challenge and support and ensuring strong governance across the Company.

The Board has examined the Company's action plan for diversity and gender pay, along with its Equality, Diversity and Inclusion policy. We maintain our dedication to fostering an inclusive atmosphere rooted in our values, where individuals can thrive regardless of their background or personal attributes. Further details, including our gender pay reporting, are available at https://seswater.co.uk/about-us/publications/our-gender-pay-gap-report.

LOOKING AHEAD

Looking ahead, the Committee, and the Board as a whole, will engage with Pennon Group plc now that the CMA have approved the merger to prepare for changes to the SES Water Board, and with due consideration for key upcoming areas of focus in 2024/25, including finalisation of the Company's PR24 Business Plan. This will need to be done in a way that ensures continuity of knowledge and experience for the benefit of the Company, its employees and its customers.

The Committee will continue to focus its attention on 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.

STATEMENT BY THE CHAIR OF THE AUDIT COMMITTEE

"The Committee dedicated significant time this year to the additional work associated with PR24 Business Plan submission, financing matters and activities related to the strategic review of the Company."

The Audit Committee continues to seek to ensure the Company's financial and regulatory processes, controls and reporting remain robust, and that there is effective risk management in place throughout the Company.

The year-ended 31 March 2024 was particularly challenging for the business not only due to the ongoing adverse economic pressures on the Company, but also as a result of the additional work for the PR24 Business Plan submission and in support for the shareholders' strategic review and resulting sale to Pennon Group plc.

Therefore, a key focus of the Committee, working closely with the Financing Committee, has been to ensure the Company, with the support of its shareholders, has appropriate resources and plans to maintain its financial resilience and going concern status during this year of substantial change and pressure on management.

The Committee continued its core activities which include ensuring compliance with statutory and regulatory reporting requirements, and reviewing key accounting and judgemental matters. The Committee also focused on ensuring high standards of integrity, financial reporting, risk management and internal controls. The Committee has noted in particular management's enhancement in 2023/24 of the financial data reporting from Aptumo, the Company's billing system.

Throughout the year, the Committee and management maintained positive engagement with the external auditor.

I continue to be impressed by the diligence and seriousness the Company applies to its assurance activities, and to the work performed to ensure the ongoing financial resilience of the Company. Of note was the successful execution of management's plan for additional equity investment and debt refinancing as the year progressed, with further refinancing completed in June 2024.

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 financial performance and strategy. I am satisfied that, as a result of the work undertaken during the year, the Committee has acted in accordance with its terms of reference.

Murray Legg
Chair of the Audit Committee
10 July 2024

Membership and meetings attended:

Murray Legg (Chair)	**4/4**
Jon Woods	**4/4**
Rebecca Wiles	**4/4**

Attendees:

The Chair, Chief Executive Officer, Chief Financial Officer, Quality and Compliance Director, Chief Information Officer and shareholder representatives attend each meeting by invitation. The external auditor attends all meetings and meets 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.

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 chair for a UK listed company, attending its Audit Committee.

The Committee receives regular accounting and corporate governance updates at least twice each year as well as specific or personal training. During 2023/24, members of the Committee, in conjunction with the full Board, received online training provided by the Company covering a variety of topics. Members of the Committee periodically visit water treatment works, the Bough Beech Reservoir, and other sites where operational practices and issues are explained. Advice on regulatory developments is made available to the Committee from specialist advisors on regulatory matters, and in 2023/24 this has included detailed reviews – together with the full Board – on PR24 Business Plan matters and Competition and Markets Authority (CMA) considerations ahead of the acquisition by the Pennon Group plc.

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 re-submissions
- Reviewing the effectiveness of internal controls and risk management systems
- Reviewing the scope and findings of internal audit work
- Overseeing the relationship with the external auditors (including financial and non-financial auditors), including approval of audit plans and assessment of their objectivity and independence.

Terms of reference:

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

MAIN ACTIVITIES OF THE COMMITTEE

The Audit Committee met four times during 2023/24, and on 12 June 2024 to consider and approve this Annual Report which was then approved by the Board on the same day. At least once a year a private session is held with the external auditor without management present. At each meeting, the Committee operates to a formal agenda of items including the minutes and action points of the last meeting.

This ensures that an accurate record of its deliberations has been maintained and actions are progressed.

The Committee chair also has preparatory discussions with the Chief Financial Officer, the Financial Director, the external auditor and, where necessary, other members of senior management prior to Committee meetings. He also 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 – notably PR24 Business Plan submission, cash collections and bad debt provisioning, financial resilience matters (in conjunction with the Financing Committee), cyber security, the use of our South Africa off-shore service centre, a review of the Guaranteed Standards Scheme (GSS) governance, and the results of reviews undertaken of major contracts.

FINANCIAL RESILIENCE MATTERS

SES Water has continued to be impacted by high inflation increasing the cost of chemicals and consumables across both our operational and capital programme, which has put continued pressure on liquidity in the year.

In addition, the Company has been impacted by continuing high levels of inflation for the majority of the year on the cost of the long-term RPI-linked bond; this has continued to put pressure on the bond covenants at year end.

To address these financial resilience matters, management – working with shareholders – completed the injection of £22.0m equity investment into the Company in the year. In addition, management completed certain key debt re-financing activities, including issuance of a £40.0m private placement debt (in November 2023 and March 2024) and re-financing of the combined £75.0m revolving credit facilities (RCFs). The combined £75.0m RCFs were replaced with a single £65m facility on 12 June 2024, with an expiry date of 12 December 2025. As of 1 July 2024, £50m of this £65.0m RCF was drawn down.

All bond interest cover ratios (including the impact of inflation) were met at year end.

CYBER SECURITY

The Committee's consideration of the threat to assets, controls and personal data (of employees, customers and data-share partners) posed by malicious activity over the internet continues to be performed in conjunction with the Company's Cyber Assessment Framework (CAF) submission to the DWI under the Network and Information Systems regulations (NIS). The latter focused on the threat to the Company's operational technology. The Committee noted the effectiveness of the Company's existing protective measures but – following a series of external penetration tests in the year – continued improvements to our plans for handling cyber threats are to be implemented.

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

- Documents required by Ofwat to be published by the Company, including the Annual Performance Report (incorporating regulatory accounts, performance against Final Determination performance measures, and financial resilience measures); targeted assurance plans; and the Company's wholesale, household, developer services and New Appointment and Variations (NAV) charges schemes
- The Company's risk register and progress on systems resilience, 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 64 to 71 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 £100m index-linked bond, including the maintenance of appropriate financial ratios and the funding of ring-fenced reserve accounts
- The operation of internal controls within the business and progress with management responses on detailed control points identified by external audits
- The operation of the Company's compliance and assurance function and the associated programme of internal audits
- Oversight of management's work with Mott MacDonald, the external auditor of the Company's regulatory performance commitments, including interim and year-end reviews
- Key policies under annual review, including the Company's code of conduct and whistleblowing policies, together with consideration of new Company policies, such as an asset management policy
- The Company's consideration of the effect of any new accounting standards to be adopted in 2024/25
- The appropriate treatment in the financial statements of government-mandated changes in tax rates
- The appropriateness of the underlying actuarial assumptions underpinning the valuation of the Company's Section of the Water Companies Pension Scheme (WCPS)
- 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 and provides for doubtful debts. The Committee supported management's approach to provisioning, which involved a consideration of the level of bad debt provisions required in the light of recent cash collection rates and the ongoing effects of the cost of living crisis. This also involved a consideration of the cash collection processes and resources in place within the Company, the results of which underpin the doubtful debt provision
- The derecognition of revenue where there is a history of customers not paying water bills

- The estimated unbilled revenue for measured customers. The Committee agreed with management's estimate of this balance, which represents consumed but unbilled water usage at year end, after taking into account recent consumption trends
- The appropriateness of the Company's policy for capitalising expenditure as fixed assets under FRS 101 and the consistent application of the policy in the year. The Committee noted that the policy and practice was consistent with that adopted with a review in the year being completed to ensure that rates of recharge reflected mix of work done. 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 commencement of depreciation charges, and that appropriate review by management continued in this area in the year
- The appropriateness of the accounting estimates and disclosures for the benefits provided to employees through the Company's Section of the WCPS. The Committee concluded that the estimates applied by the Company's actuarial advisors in calculating the annual cost and valuing the assets and liabilities associated with the defined benefit obligation were within the range typically adopted for prudent provisions in the current economic environment.

GOING CONCERN

Having carefully considered the Company's liquidity and forecast obligations 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.

The Committee noted that management has considered the impact of the current economic conditions, future equity support from its shareholders, recent debt re-financing, ability and intent of our new shareholder – Pennon Group plc – to fulfil such support. The directors have also considered severe but plausible downside scenarios having regard to the ongoing high inflationary environment, the Company's forecast liquidity, and the long-term bond covenants.

FAIR, BALANCED AND UNDERSTANDABLE REPORT

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

In considering the advice to be given to the Board, the Committee reviewed the Company's processes for ensuring the accuracy of information within this Annual Report, noting the continuous updates to the well-established processes for assurance of key performance measures (including those required for regulatory purposes) and underpinning the Company's Risk and Compliance Statement to the Water Services Regulatory Authority (which can be found in the Annual Performance Report), 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 employees in the preparation and review of the Annual Report, reflecting the detailed involvement that senior employees have in the day-to-day operations and control of a business of the size and nature of the Company. Having reviewed drafts of the Annual Report, had enquiries answered satisfactorily and noted enhancements made to initial drafts, the Committee is pleased to confirm to the Board that it considers the Annual Report meets the high standards required by the UK Corporate Governance Code.

EXTERNAL AUDITOR

The Committee approved PwC's proposed approach for the year-end statutory audit at its meeting in November 2023. Regular dialogue was held with the auditor regarding the progress and findings from the audit. 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.

During the year, the Committee focused on how robust and effective PwC's challenges were on key areas of judgement by management, and whether PwC had exhibited an appropriate level of professional scepticism in such areas. This included the Committee reviewing PwC's work on management's provisions for doubtful debts and the estimated unbilled revenue for measured customers, together with considering the level of challenge that PwC provided to management's assessment of going concern and long-term viability. In all such instances, the Committee considered an appropriate level of challenge has been provided by PwC, as reflected in its year-end reporting to the Committee and published audit report.

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

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

Note 6 to the statutory accounts (page 140) shows that the fees due to PwC all related to audit or other assurance procedures on the Company's statutory and regulatory obligations. The Committee concurred with the auditor's assessment that there are no factors which would impair its objectivity and independence. The Committee is satisfied that there are adequate safeguards in place to protect the independence and objectivity of the service provided by the external auditor including a requirement for all non-audit work likely to exceed £10,000 to be approved by the chair of the Committee. Amounts under this threshold will be approved by the Chief Financial Officer and are considered pre-approved by the Audit Committee.

External audit partners are rotated every five years. The external audit partner in respect of the 2024 financial year has been Richard French who has now completed five years in that role for Sutton and East Surrey Water Plc. Richard French will therefore step down as audit partner for Sutton and East Surrey Water Plc on completion of the 2024 audit and the Committee would like to thank him for his input and support in their work over the last five years. Colin Bates will take over as external audit partner in respect of the 2025 financial year.

STATEMENT BY THE CHAIR OF THE HEALTH, SAFETY AND WELLBEING COMMITTEE

"Acknowledging the importance placed on ensuring health and safety leadership, the Committee was pleased to note the progress made in the year."

The Health, Safety and Wellbeing Committee supports the Company to fulfil its legal and moral obligations in developing a supportive health and safety culture, and maintaining appropriate systems and processes that protect all colleagues and those in the community impacted by our work.

The Committee met quarterly in 2023/24 and was pleased to note the ongoing excellent health and safety performance. There were no Lost Time Accidents (LTAs) during this period, no reportable incidents or injuries at year end and the number of minor Non-Lost Time Accidents (NLTAs) was also lower than the previous year. The Company was also very proud to achieve two RoSPA gold awards for health and safety performance and the management of occupational road risk during 2023.

A focus of the Committee was to review the cause of all accidents and to challenge the Company's response to all Potential Hazard Early Warning (PHEW) reports, ensuring that future strategy, delivery plans and proposed campaigns align with those areas identified as having a higher potential to cause harm. Specific areas addressed in 2023/24 were the risks of working at height, ensuring that contractors and consultants have equal access to appropriate health and safety induction material and colleague lone working. In addition, new training packages were developed in-house to address the risk from distracted driving and a new supplier was identified to deliver more effective safety and conflict resolution training for those colleagues dealing with the public.

The Company operates a 'STOP' card system, enabling any colleague to intervene and request that works are ceased where they believe there may be a risk to the health, safety or wellbeing of colleagues, contractors working on our behalf or the public. This is with the authorisation of the CEO. In 2023/24, four of our colleagues stopped works until important changes to the tools used, or processes involved, had been made.

Acknowledging the importance placed on ensuring health and safety leadership, the Committee was pleased to note the progress made in the year to ensure all members of the senior leadership team were engaged in completing health and safety inspections and holding wellbeing conversations across all areas of our operations. As chair of this Board Committee, I also attended one of the three Company Health, Safety and Wellbeing Committee meetings and witnessed firsthand the energy and engagement from all members representing different areas of our business.

Another important Committee agenda item is to review and learn from incidents in the industry and across the utility sector more widely and consider whether any adjustments are required in SES Water's policies and procedures.

The Committee also particularly acknowledged the success of the Company-wide initiative to engage all colleagues in our agenda through Health and Safety roadshows at our treatment work sites and a Health and Safety Day at the Head Office in 2023. These events included a personal re-launch of the STOP card by the CEO, focus on manual handling, HGV blind-spot awareness, demonstrations of alternative safety equipment, and engagement with both the providers of our health support agencies and our own Mental Health First Aiders.

A key event that brought operational colleagues together to consider the risks from complacency, fatigue and distraction was the organisation of a safety stand-down event at the start of the year. An external speaker provided an insightful and thought-provoking presentation and further support for the Company's ongoing review of the Working Time Regulations.

The Committee also reviews data on health and wellbeing and was encouraged by the attendance statistics for the Company's free colleague health checks, noting the anonymised outputs will drive the Company's future focus to encourage hydration, exercise, healthy nutrition and management of stress.

The Committee reported to the Board and supported a separate annual presentation to the Board by the Group Health and Safety Manager.

Rebecca Wiles

Rebecca Wiles
Chair of the Health, Safety and Wellbeing Committee
10 July 2024

Membership and meetings attended:

Rebecca Wiles (Chair)	**4/4**
Ian Cain	**3/4**

Attendees:

The Chair, Chief Executive Officer, Quality and Compliance Director, Wholesale Director, HR Director, Group Health and Safety Manager and shareholder representatives were invited to attend each meeting.

Responsibilities:

- To approve the Company's strategic plans for the development of health, safety and wellbeing maturity
- To review health and safety performance, focusing on the analysis of key trends, the outcome of investigations and the Company's response to incidents
- To review wellbeing statistics and survey outputs
- To consider the effectiveness of activities delivered in respect of health, safety and wellbeing, and to agree action plans and the prioritisation of forthcoming initiatives
- To actively engage with, take feedback from and ensure the beneficial input to, the Company's employee Health, Safety and Wellbeing Committee.

Terms of reference:

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

STATEMENT BY THE CHAIR OF THE REMUNERATION COMMITTEE

"The Committee has focused on ensuring the Executive Pay Policy is fully aligned with recent Ofwat guidance."

This report outlines our approach to executive remuneration highlighting the actions taken by the Committee to ensure we have a fair and transparent reward system, aligned with the long-term interests of our Company and stakeholders.

The focus of the Committee in 2023/24 has been to ensure the reward and incentive opportunities for key senior managers and the executive directors are appropriate in light of the Company's operational, financial and regulatory performance.

In a period of increased pressure on the industry, we recognise and understand the heightened scrutiny of executive pay. We have taken on board Ofwat's guidance that serious breaches of customer trust, particularly environmental, should be reflected in the pay of executives. We balance this with the need to attract and retain high-calibre individuals who will run the Company for our customers and deliver on performance commitments. Our Executive Pay Policy is designed to attract, motivate, and retain exceptional talent while maintaining a clear link between pay and performance. It aims to strike the right balance between providing competitive rewards to drive Company growth, enhance shareholder value, and ensure responsible and prudent governance

In April 2024, we reviewed our Executive Pay Policy, including reviewing and discussing Ofwat's recent publications and associated sector-wide correspondence, ensuring that the Executive Pay Policy addressed these matters clearly. While no substantial changes were deemed necessary to the prior year Executive Pay Policy, the Committee have enhanced this report to explain more clearly the decision making process and final results of the executive pay for the year-end 31 March 2024.

Full details of the Executive Pay Policy, in addition to the achievements against the targets for 2023/24, and the consequent bonuses payable to executive directors, are set out in this report. These targets are also shared by the colleague bonus scheme.

Each year we review our colleague's pay with our representative forum, the Joint Negotiation and Consultative Committee (JNCC). We reacted fairly to the continued challenges of the rising cost of living by awarding a 4.5% pay increase for 2024/25, increased the maximum potential employee bonus payment to £750 and gave an additional day's annual leave for 2024/25 only. As part of the pay review process, we ensure that no colleagues are paid below the Real Living Wage rate of pay.

The major decisions on directors' remuneration included the approval of the annual pay increase, annual bonuses based on personal targets and Customer Pledges – including a discretionary reduction of 3.15% to reflect that the financial performance target was not met – and the 2021 LTIP plan pay-out. The Committee discussed, challenged and agreed executive director's pay and benefits, ensuring that their long-term incentives and bonuses were payable on achievement of the targets set out in this report The achievements of results against these targets are noted on page 107.

During the year no substantial changes were made to the directors' remuneration framework, but a new long-term incentive plan (LTIP) for 2024 was introduced. Following the acquisition by the Pennon Group, and subsequent CMA approval on 14 June 2024, the Executive Pay Policy will be reviewed as part of the wider Pennon Group remuneration.

As well as remuneration, a competitive pension scheme and holiday entitlement, we offer our colleagues a range of wellbeing schemes including medical cash plans, colleague assistance programmes, flu vaccinations, annual health checks and medical health insurance. We have 1 in 13 of our colleagues trained as Mental Health First Aiders.

The Committee continues to focus on equality, diversity and inclusion, with progress against our action plan being presented at the main Board earlier in the year. We are proud the Company provides equal opportunities for everyone. We continue to review our gender pay gap – data for this can be seen in the report dated 5 April 2023 on the Company's website. Our pay gap has improved from 10.1% in 2022, to 7.1% in 2023.

We are committed to:

- Promote equitable pay practices that support diversity and inclusion, ensuring that remuneration is free from discrimination based on gender, race or other factors
- Ensure that remuneration for executives and colleagues is fair, competitive and aligned with the market to attract and retain talent
- Maintain transparency in the remuneration process, ensuring it is clearly communicated and understood by all stakeholders, and reward is aligned with the Company's objectives, and awarded for performance
- Conduct regular reviews of remuneration policies and practices to ensure they remain relevant, effective and aligned with the Company's goals and industry trends.

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

Jon Woods .

Jon Woods
Chair of the Remuneration Committee
10 July 2024

IMPLEMENTATION OF EXECUTIVE PAY POLICY IN 2023/24

THE TABLE BELOW SUMMARISES THE IMPLEMENTATION OF THE DIRECTORS' EXECUTIVE PAY POLICY FOR EXECUTIVE DIRECTORS IN 2023/24.

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.

MEMBERSHIP AND MEETINGS ATTENDED:

Jon Woods (Chair)	2/2
Dave Shemmans	2/2
Murray Legg	2/2
Rebecca Wiles	2/2

ATTENDEES:

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

RESPONSIBILITIES:

- Making recommendations to the Board on the framework for remuneration of the Chairman, independent non-executive directors, Chief Executive Officer, Chief Financial Officer and members of the executive and 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.

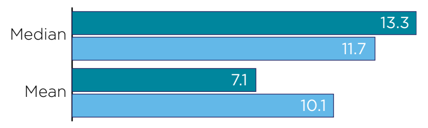
GENDER PAY AND BONUS PAY PERCENTAGES

The differences in adjusted hourly pay between the average (mean) or middle (median) man and the average or middle woman expressed as a percentage of the man's pay.

The differences in the total bonuses paid to the average (mean) or middle (median) man and the average or middle woman expressed as a percentage of the man's total bonus.

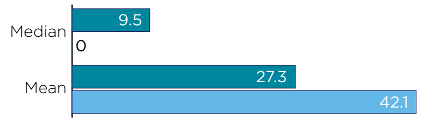
GENDER PAY GAP 2023 (%)

2023 2022



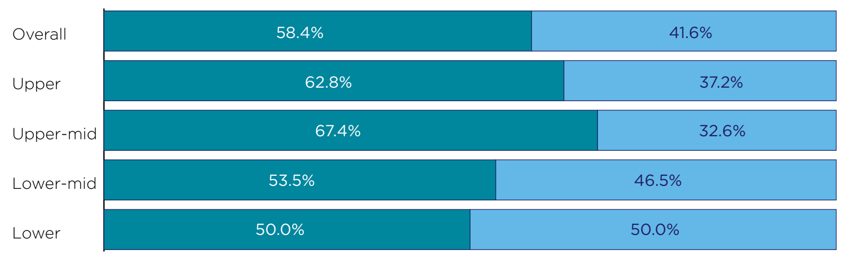
BONUS PAY GAP 2023 (%)

2023 2022



PAY QUARTILES

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



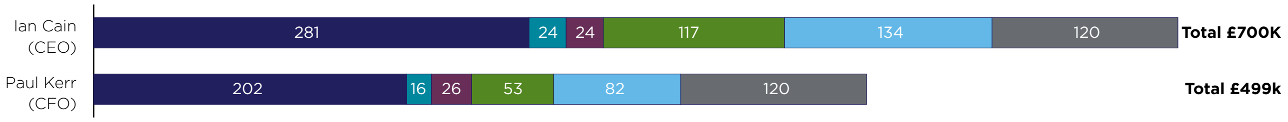
GENDER SPLIT BY ROLE

	Male	Female	Total
Directors	2	0	2
Senior managers	10	11	21
Employees	199	131	330
Non-executive directors	3	1	4
Total	214	143	357

IMPLEMENTATION OF DIRECTOR'S EXECUTIVE PAY POLICY IN 2023/24

The table below summarises the implementation of the Executive Pay Policy for executive directors in 2023/24.

TOTAL PAY DUE TO EXECUTIVE DIRECTORS (£'000)

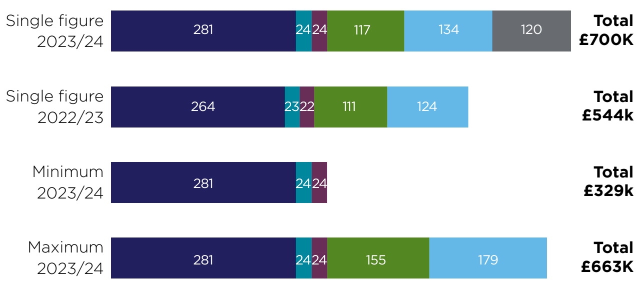


SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS FOR 2023/24 COMPARED WITH PERFORMANCE SCENARIOS

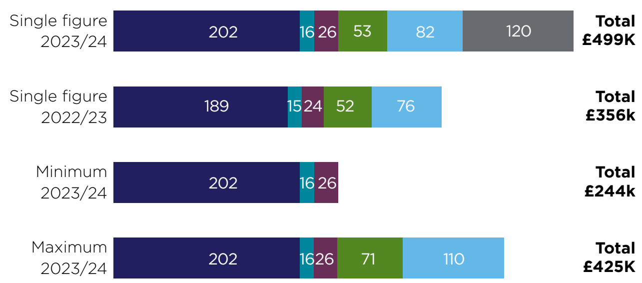
Fixed pay comprises base salary, benefits and pension, with variable pay comprising other benefits such as bonus and LTIP. The charts below show the relative split between these fixed and variable pay elements for Ian Cain and Paul Kerr as compared with the remuneration scenarios described on page 104.

Salary Benefits Pension Bonus LTIP Other payments

IAN CAIN (£'000)



PAUL KERR (£'000)



The Company's Executive Pay Policy is designed to attract and retain good-quality senior executives having regard to other UK-based businesses. It provides for a remuneration package, the variable element of which reflects the Company's performance against stretching customer service, operational and financial objectives. The Board considers that the performance element of the remuneration package is appropriate given the main activities of the Company. Full details of each component of the directors' remuneration applicable for the 12 months ended 31 March 2024 are shown below.

UPDATED EXECUTIVE PAY POLICY – EFFECTIVE FROM 1 APRIL 2024

While this remuneration report focuses on Board and executive directors' remuneration for the year-ended 31 March 2024, the Board acknowledges and fully agrees with Ofwat's 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 environmental performance, and that the measures be' stretching in nature.

In June 2023 Ofwat published its final guidance on a performance-related executive pay (PRP) recovery mechanism, which would allow them to ensure customers are protected and do not fund executive director's PRP where companies do not meet the expectations set out. These provisions apply from 2023/24, and in November 2023 they published their assessment of the industry. For both the 2023/24 consideration of executive pay, and ongoing into 2024/25 expected pay considerations, the Remuneration Committee has specifically reviewed the Executive Pay Policy against this latest set of Ofwat guidance. The Committee reviewed and discussed Ofwat's guidance around matters such as alignment to customer delivery, stretching targets, overall performance, compliance matters and ensuring that overall poor performance is not rewarded.

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

The Remuneration Committee still retains the power to reduce all or part of PRP payments resulting from exceptional circumstances.

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

Measures are in place to avoid or deal with any potential conflicts of interest that should arise during this process. Neither the Chief Executive Officer nor the Chief Financial Officer are present during the discussions of their potential annual bonus or LTIP awards, and the Committee has access to third party audit reports to objectively verify both the financial and non-financial performance of the business, including delivery of service to the Company's customers.

The Executive Pay Policy incorporates business resilience as it supports customer performance in the LTIPs as opposed to simply financial performance, ensuring that executives have a responsibility to ensure the long-term financial sustainability of the Company.

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 cost of living crisis and macro-economic environment, 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 our Executive Pay Policy over time and, where policies develop and change, we will explain the reasons in our Annual Report and signal changes to stakeholders.

For clarity in this report, each of the following sections details elements of executive directors' remuneration for the 12 months ended 31 March 2024. For the LTIPs all awards were considered under the updated Executive Pay Policy considered above.

COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION APPLICABLE FOR THE 12 MONTHS ENDED 31 MARCH 2024

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. While 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 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

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

OPERATION

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

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

OPPORTUNITY

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

PERFORMANCE METRICS

Not applicable.

4. ANNUAL BONUS

PURPOSE AND LINK TO STRATEGY

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

OPERATION

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

As with all bonuses, they remain discretionary and can be adjusted or removed at the Company's discretion, which is exercised by the Remuneration Committee on behalf of the Board.

OPPORTUNITY

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

PERFORMANCE METRICS

The weighting of annual targets, under the policy, is 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 and therefore no changes to these metrics have been made for 2024/25.

	Total
Water quality	**16.67%**
C-Mex/D-Mex	**16.67%**
Leakage	**16.67%**
Supply interruptions	**16.67%**
PCC	**16.67%**
Affordability	**16.67%**
Total	**100.0%**

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

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

5. LONG-TERM INCENTIVE PLAN

PURPOSE AND LINK TO STRATEGY

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

OPERATION

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

OPPORTUNITY

The maximum incentive payments opportunity for the three-year period are shown below:

LTIP	Maximum opportunity
Chief Executive Officer	70%
Chief Financial Officer	60%

PERFORMANCE METRICS

In 2019/20, the Executive Pay Policy was updated to substantially change the targets and measurement criteria for the Company's LTIPs commencing 1 April 2020. This update to the Executive Pay Policy in prior year did not change the on-target and maximum available opportunities available under the LTIP for the CEO and CFO. In 2021/22, these performance targets were aligned even further to performance for customers, and in 2022/23 have been enhanced further to reflect a focus on environmental resilience, with the requisite weighting as follows:

- Customer performance, service and support – 70%
- Environmental and reputational resilience – 30%.

Given the updates to the Executive Pay Policy noted above in recent years, and the improved alignment to customer and environmental performance, no further changes to such metrics have been made for 2024/25.

The specific measurement criteria are broken down further into the following key components, which will be measured and monitored for achievement by the Remuneration Committee. With the focus primarily on customer performance through long-term business resilience, as well as customer service and support, 70% of any potential LTIP award is clearly aligned to delivery for customers.

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

CUSTOMER PERFORMANCE THROUGH BUSINESS RESILIENCE – 2023/24

Target	Measurement criteria	Weighting
Systems-based resilience	Progress on key aspects of the Company-wide resilience plans with a focus on network and operational resilience • Such progress will be achieved through effective totex spend to minimise leakage, supply interruptions and supply failures and efficient capex programmes to minimise unplanned outages and ensuring performance commitments are met. Digital resilience will be a key part of achieving this overall systems-based resilience.	**15%**
Financial resilience	Ensure that customers benefit from a stable financial business that allows prioritisation of customer service • Outperformance of budget (allowing delivery to customers in an economically efficient manner) • Business Plan financial covenant and gearing ratios are met • Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions.	**25%**
Total weighting		**40%**

CUSTOMER SERVICE AND SUPPORT – 2023/24

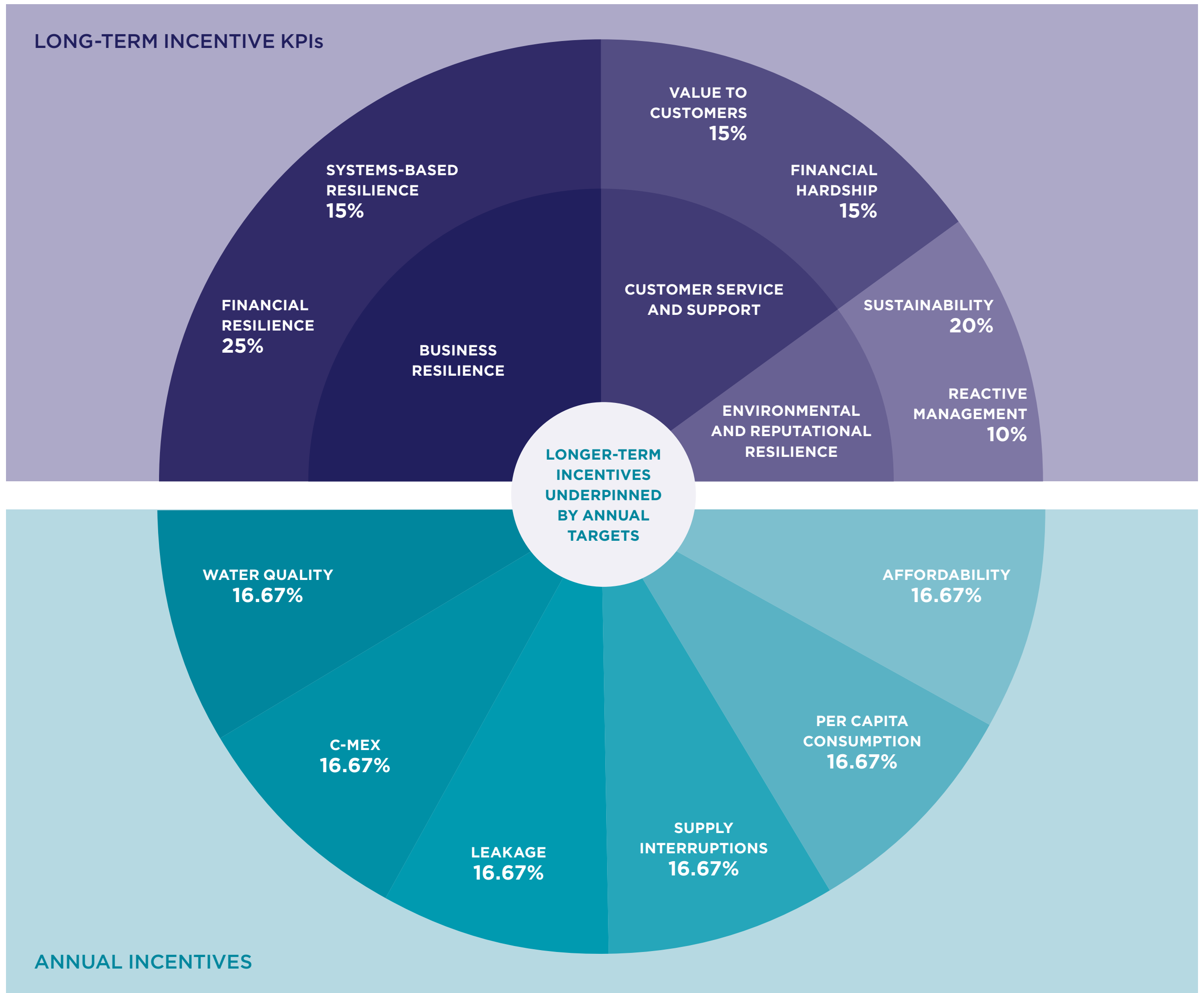
Target	Measurement criteria	Weighting
Value to customers	Development, deployment and delivery of a Company-wide, cost-effective customer plan that solidifies our position as a customer-oriented organisation and drives improvements in our C-MeX standing	**15%**
Financial hardship	Achievement of social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

ENVIRONMENTAL AND REPUTATIONAL RESILIENCE – 2023/24

Target	Measurement criteria	Weighting
Proactive sustainability and social steps	Proactive steps taken to enhance reputation, including embracing and implementing a social value agenda and bringing to life the Company's environmental agenda (aligned to the water sector's Public Interest Commitments, including net zero carbon)	**20%**
Reactive management	Appropriateness of steps taken by management in light of potential reputational issues	**10%**
Total weighting		**30%**

LINKAGE OF ANNUAL AND LONG-TERM INCENTIVES TO BUSINESS STRATEGY

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



OTHER REMUNERATION MATTERS

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

PAY AND CONDITIONS FOR OTHER EMPLOYEES

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

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

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, the cash health plan introduced in 2014 and the employee annual bonus scheme introduced in 2015.

GENDER PAY

As a Company, we believe in creating a diverse workforce which ensures equal opportunities for all employees. We do not discriminate based on gender.

We commissioned our seventh gender pay gap report for 5 April 2023. The report showed that the difference in average pay is 7.1% (2022: 10.1%); full details can be seen on our website. As is common in the utility industry, the main reasons for our gender pay gap is that there are more men than women in senior roles as well as more men in roles that attract shift pay and other working pattern allowances. Men have worked for the Company for many years and moved up our hierarchy. We are working hard to ensure our future looks different.

At SES Water we understand that people are our greatest strength and believe that by creating a diverse, gender-balanced workforce this not only helps to ensure that we have equal opportunities for all employees but also reflects the customers we serve.

Through our Thriving Together working group we provide information and support events to promote diversity. We have overhauled our recruitment process – ensuring we have males and females on our interview panels, and ensuring there are females represented at all stages of the interview process. We write our recruitment adverts in-house, checking language in adverts and job descriptions to make sure there is no gender bias. We support our hiring managers with a range of tools to assess role-based skills and recruitment training as required.

Each year we also celebrate events such as International Women's Day and Pride with members of our senior leadership team and partner organisations, inspiring people with their stories and providing networking opportunities.

We will continue not just as a standalone company, but as a sector, to jointly decrease the gender pay gap.

ANNUAL PAY AWARDS

Annual pay awards for most employees are negotiated with employee representatives of the JNCC, 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.

The pay rises agreed in this report were previously agreed with employee representatives in March 2023 for pay awards commencing 1 April 2023:

- 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
- The opportunity to earn an employee bonus upon achievement of the Customer Pledges which includes customer service, health, safety, quality, environmental and financial targets. From 1 April 2017 the maximum bonus payable for achievement of all targets was £550 p.a., increased to £750 p.a. for the 2024/25 year only.

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

RECRUITMENT REMUNERATION POLICY

When hiring a new executive director, the Committee will seek to use the Executive Pay Policy to determine an appropriate ongoing remuneration package, as detailed on pages 100 to 104. If necessary, to facilitate the hiring of an executive of appropriate calibre, the Committee may exercise discretion to include any other remuneration component or award outside this policy as agreed with the Board. Appropriate costs and support will be covered if the recruitment requires the individual to relocate.

SERVICE CONTRACTS

The notice periods in executive directors' contracts are 12 months from the Company, 6 months from the executive director. Executive directors may be required to work their notice period or may be provided with pay in lieu of notice or placed on garden leave at the discretion of the Company. The executive directors' contracts commenced on the following dates:

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

Any payments for compensation for loss of office will be made at the complete discretion of the Board on the recommendation of the Remuneration Committee.

If the Company wishes to terminate an executive director's contract, other than in circumstances where the Company wishes to summarily dismiss, it is required to give either 12 months' notice or make a payment in lieu of base salary only. If the reason for dismissal is redundancy the executive director would be entitled to a statutory redundancy payment.

The non-executive directors, including the Chair, do not have service contracts and their appointments, while for a term of three years, may be terminated with 3 months notice. The Chair and the independent non-executive directors have letters of appointment. The appointments of the current non-executive directors commenced on the following dates:

- Dave Shemmans 1 September 2014
- Murray Legg 1 October 2015
- Jon Woods 1 March 2016
- Rebecca Wiles 26 May 2022.

REMUNERATION COMMITTEE CONTINUED

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

The table below shows the total remuneration earned by each director in 2023/24.

	Salary		Taxable benefits[1]		Annual bonus[2]		Long-term incentive[3]		Pension-related benefits[5]		Other payments[6]		Total remuneration		Fixed remuneration		Variable remuneration	
£'000	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Executive directors																		
Ian Cain	**281**	264	**24**	23	**117**	111	**134**	124	**24**	22	**120**	–	**700**	544	**329**	309	**371**	235
Paul Kerr	**202**	189	**16**	15	**53**	52	**82**	76	**26**	24	**120**	–	**499**	356	**244**	228	**255**	128
Total executive directors	**483**	453	**40**	38	**170**	163	**216**	200	**50**	46	**240**	–	**1,199**	900	**573**	537	**626**	363
Non-executive directors[4]																		
David Shemmans	**86**	81	**-**	–	**-**	–	**-**	–	**-**	–	**40**	–	**126**	81	**86**	81	**40**	–
Murray Legg	**44**	41	**-**	–	**-**	–	**-**	–	**-**	–	**10**	–	**54**	41	**44**	41	**10**	–
Jonathan Woods	**43**	40	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**43**	40	**43**	40	**-**	–
Rebecca Wiles	**37**	30	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**37**	30	**37**	30	**-**	–
Total non-executive directors	**210**	192	**-**	–	**-**	–	**-**	–	**-**	–	**50**	–	**260**	192	**210**	192	**50**	–
Total[7]	**693**	645	**40**	38	**170**	163	**216**	200	**50**	46	**290**	–	**1,459**	1,092	**783**	729	**676**	363

1. Taxable benefits include car allowances, private medical insurance and life insurance.
2. Annual bonuses are variable and were determined in accordance with the policy described on page 101 and reflect the performance against the targets on page 106. Ian Cain's bonus was paid out at 41.75% (against a maximum of 55%) of his personal and company specific targets and Paul Kerr's bonus was awarded on achieving 26.36% (against a maximum of 35%) as noted after page 107. No bonuses were deferred.
3. The 2021 LTIP scheme closed on 31 March 2024 and a payment of £133,875 was made to Ian Cain, and £82,299 to Paul Kerr, in respect of this scheme as detailed below. The other current LTIP schemes (the 2022 and 2023 LTIP) have expected payments accrued as at 31 March 2024.
4. Fees for the independent non-executive directors have been set in accordance with the policy disclosed on page 104. Dave Shemmans, the Board Chair, also acts as the Chair of East Surrey Holdings Limited, and Murray Legg, the Audit Committee Chair, also acts as the Audit Committee Chair of East Surrey Holdings Limited, for which they are separately remunerated by East Surrey Holdings Limited. None of the other non-executives received any remuneration from the Company.
5. Pension-related benefits represent the company's contributions to the directors' personal pension plans.
6. Ian Cain and Paul Kerr each received a payment of £120k from the former shareholders for services provided on the sale of the ESH group. Dave Shemmans and Murray Legg received £40k and £10k respectively from the shareholder on the sale of the ESH group. The amounts were not paid for out of SESW.
7. No payments to past service directors were made in this period.

DETAILS OF THE ANNUAL BONUS SCHEME (AUDITED)

The targets below are common to all employees including executive and senior management; note the haircut has only been applied to executive directors and senior management.

Customer Pledge	% split	Actual result
Water quality	16.67%	16.18%
C-Mex/D-Mex	16.67%	7.52%
Leakage	16.67%	15.87%
Supply interruptions	16.67%	15.87%
PCC	16.67%	5.01%
Affordability	16.67%	14.70%
Total	**100.00%**	**75.15%**
Discretion applied due to financial performance target not met		(3.15%)
Total		**72%**

EXPLANATION OF VARIABLE PAY ELEMENT FOR CEO AND CFO ON 31 MARCH 2024 (AUDITED)

ANNUAL BONUS PAYMENTS

The annual bonus payments for Ian Cain and Paul Kerr of £117k and £53k for the year-ended 31 March 2024 as noted above were based on achievement of specific customer pledges and personal targets for the year, with the results as follows:

Performance target	% Weighting (Maximum)	% of Targets Achieved	Actual Bonus Award %	Total Bonus Award (£)
Customer Pledges				
Ian Cain	38.5%	72%	27.72%	£78k
Paul Kerr	24.5%	72%	17.64%	£35k
Personal				
Ian Cain	16.5%	85%	14.03%	£39k
Paul Kerr	10.5%	83%	8.72%	£18k
Total bonus achieved				
Ian Cain	**55.0%**		**41.75%**	**£117k**
Paul Kerr	**35.0%**		**26.36%**	**£53k**

LONG-TERM INCENTIVE AWARDS WITH PERFORMANCE PERIODS ENDING IN 2024 (AUDITED)

The LTIP payments for Ian Cain and Paul Kerr of £133,875 and £82,299 respectively for the year-ended 31 March 2024 were based on achievements of specific performance targets, granted on completion of the three-year performance period to 31 March 2024 (the 2021 scheme). Achievements against the targets are set out below:

Performance target	% Weighting	% Achieved	% LTIP award
Business resilience			
Systems-based resilience	15%	75%	11.25%
Financial resilience	25%	50%	12.50%
Customer service and support			
Value to customers	15%	75%	11.25%
Financial hardship	15%	80%	12.00%
Environmental and reputational resilience			
Sustainability	20%	90%	18.00%
Reactive management	10%	100%	10.00%
Total weighting	**100%**		**75.00%**

CUSTOMER PLEDGES (AUDITED)

In line with the Company's Executive Pay Policy, bonuses equivalent to a maximum of 38.5% and 24.5% of Ian and Paul's annual salaries respectively relates to achievement of six specific Customer Pledges, equally weighted. The actual bonus targets for each of these pledges is primarily achievement of the associated performance commitment in the year in line with the associated outcome delivery incentive – for example the target for supply interruptions is ensuring that the 5 minutes/property/year was not breached. The Remuneration Committee then considers further achievement of these bonus targets associated with the pledges in terms of the manner of their achievement and any mitigating or external factors to conclude on actual performance against target. The final result of this assessment is provided below, including the reasoning for the Committee's final consideration of % of pledges (and therefore bonus targets) achieved. Both executives were awarded 72% of these bonus levels – resulting in an actual payout of 27.72% and 17.64% of their annual salary respectively.

Customer Pledge	% split	% achieved	Comment on 2023/24 results	Actual result
Water quality	16.70%	97.00%	The Compliance Risk Index (CRI) is again within top quartile water quality. Excellent results were achieved for the full year and no significant Water Quality events occurred in the year to date. A reduction is applied to reflect Taste, Odour, Discolouration (TOD) which was marginally behind tight regulatory targets despite overall strong performance (c£64k penalty forecast for 2023/24). A downside for softening performance has also been considered with target for the full year not going to be met (c£118k penalty expected).	16.18%
C-MeX/D-MeX	16.70%	45.00%	While C-Mex (Q2 2023/24) showed an improvement – SES Water came 11th in the Q2 C-Mex table with a score of 74.69 compared to 71.96 in Q1, C-Mex dropped again in Q3 2023/24 with 14th position, and 14th again for Q4 2023/24 giving a year placing of 14th. We have improved significantly on a number of the critical customer service KPIs that feed into the overarching customer experience and our reputational score is much improved. However whilst we have kept up with the industry we have not yet made the transformation in C-Mex that we are striving for. Continued positive progress on D-Mex although minor penalty – c£70k expected for the full year.	7.52%
Leakage	16.70%	95.00%	Year 4 leakage target achieved through continued effective use of our smart network (iDMA) and other innovative leakage solutions. Ofwat are still contending specific water balance elements of the calculation but no downside impact considered necessary given continued strong leakage performance. Cumulative leakage reward (now c£900k) is still to be released by Ofwat pending water balance review.	15.87%
Supply interruptions	16.70%	95.00%	Continued outperformance, with overall reward for the full year (c£215k). 95% reward in current year reflects achievement of this difficult target despite Gatton Park incident and successful early completion of the A22 resilience work without any customer impact.	15.87%
PCC	16.70%	30.00%	In the current year, the target has not been met given the legacy impact on demand following Covid. Customer water efficiency programme has made good progress, alongside CSL work, meter installation continues to progress but is behind target.	5.01%
Affordability	16.70%	88.00%	PSR, ST and Voids targets met.	14.70%
Total				**75.15%**
Discretion applied due to financial performance target not met				(3.15%)
Total	**100.00%**			**72.00%**

PERSONAL (AUDITED)

In line with the Company's Executive Pay Policy bonuses equivalent to a maximum of 16.5% and 10.5% of Ian and Paul's annual salaries respectively relate to the achievement of their personal objectives for the year. Actual performance against these personal objectives resulted in Ian and Paul receiving 85% and 83% of these personal bonus levels – resulting in an actual payout of 14.03% and 8.72% of their annual salaries respectively.

These payout levels reflect the significant achievement against objectives ensuring the relentless focus on delivering commitments to customers, the strengthening of business and operational resilience and building the platform for future success, navigating successfully the financial challenges for the business and customers through a cost of living crisis and motivating and retaining a very talented SES team through a period of significant volatility for the industry and uncertainty for our team through the shareholder sale.

LTIP PAYMENTS (AUDITED)

Ian Cain and Paul Kerr were awarded an LTIP payment of £133,875 and £82,299 respectively relating to the 2021 LTIP, which represented 75% of the available reward. This relates to 52.5% of Ian Cain's salary of £255,00 pa on 1 April 2021, and 45% of Paul Kerr's salary of £182,886 pa on 1 April 2021. This payout reflected achievement of certain financial metrics for the three years to 31 March 2024. The measurements include systems-based resilience, financial resilience, value to customers, financial hardship, environmental and reputational resilience. See chart on page 103. In the year Ian Cain and Paul Kerr were invited to the 2023 LTIP Scheme; the targets and potential payouts remain consistent with the 2021 scheme. The reward will be calculated on salaries at 1 April 2023, £281,080 pa for Ian Cain, and £201,568 pa for Paul Kerr. The scheme is documented on page 107.

PERCENTAGE CHANGE IN REMUNERATION FOR THE CEO AND CFO

The table below shows the percentage change in remuneration between the years ended 31 March 2023 and 31 March 2024 for the CEO, CFO and all employees.

	2024			2023		
	Salary	**Benefits**	**Incentive[1]**	Salary	Benefits	Incentive
CEO	**6.5%**	**6.5%**	**6.8%**	3.5%	3.5%	6.0%
CFO	**6.5%**	**6.5%**	**5.5%**	3.5%	3.5%	7.0%
All employees	**6.5%**	**0.0%**	**0.7%**	3.5%	0.0%	(12.5)%
	2022			2021		
	Salary	Benefits	Incentive	Salary	Benefits	Incentive
CEO	2.0%	230.0%	13.6%	0.0%	0.0%	416.7%[2]
CFO	2.0%	8.2%	12.0%	2.2%	0.0%	149.0%[3]
All employees	3.5%	0.0%	7.4%	2.2%	(2.1)%	7.3%

1. The 2024 figures do not include LTIP payments, however 2022 and 2023 comparatives include LTIP payments. Ian Cain and Paul Kerr each received a payment of £120k from the former shareholders for services provided on the sale of the ESH Group.
2. The CEO annual incentive increase of 417% is driven by a bonus covering 1 month of Ian Cain joining in February 2020 for financial year ending 31 March 2020, compared to a full year's bonus earned in financial year ending 31 March 2021.
3. The CFO incentive increase of 149% is driven by the first LTIP payment being made covering the years 2018 and 2021.

The non-executive directors, aligned to all employees, received a 4.5% pay rise. This is reviewed annually.

CEO PAY RATIO

As in prior year reporting and in line with regulatory requirements, we have chosen to use the Department of Business, Energy and Industry Strategy (BEIS) methodology, Option A, to show the pay ratio between the CEO compared to the total remuneration received by all employees. This includes all remuneration elements including benefits, overtime and long-term incentives. We have chosen to use Option A as we consider it to be the most accurate way of identifying employees across the percentile splits.

The table below provides the ratio between the CEO single figure remuneration, the 25th, the median and 75th percentile remuneration of all full-time equivalent employees as at 31 March 2024.

The calculations shown below are effective 31 March of each year started and there are no divergences noted from the single total figure between the CEO and employees' pay and benefits.

The increase in the ratio is due to the 2024 bonus and LTIP amount achieved by Ian Cain compared to that awarded to the wider employee population. In 2024 Ian Cain was awarded a one-off bonus for the successful completion of the sale of the wider group, this bonus is included in the ratio calculations causing the increase compared to prior years. Without this increase the ratios would be at consistent levels with 2023. The salary and total for employees in the 25th percentile is £27,689 (total pay £28,361), for median salary is £32,694 (total pay £59,830) and for 75th percentile salary of £46,200 (total pay £48,346). The median salary versus total pay is due to the overtime completed in the year.

Year	Method A	25th percentile ratio	Median	75th percentile ratio
2024	Option A	25:1	18:1	15:1
2023	Option A	20:1	16:1	11:1
2022	Option A	14:1	14:1	10:1
2021	Option A	14:1	14:1	9:1
2020	Option A	17:1	12:1	9:1

RELATIVE IMPORTANCE OF EMPLOYMENT COSTS

The table below shows the total of all the Company employees compared to interest paid and capital expenditure, both being key expenses in the Company to finance the business and invest in its asset base as described in the financial review.

£'000	**2024**	2023	% change
Employee costs	**15,748**	15,622	1%
Interest expense	**30,491**	30,612	0%
Capital expenditure	**22,446**	25,300	11%

DIRECTORS' REPORT

The directors present their report and audited financial statements for the Company for the year-ended 31 March 2024.

DIRECTORS AND THEIR INTERESTS

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

- **D Shemmans**, Chair
- **I Cain**, Chief Executive Officer
- **P Kerr**, Chief Financial Officer and Company Secretary
- **M Legg**, senior independent non-executive
- **J Woods**, independent non-executive
- **R Wiles**, independent non-executive
- **K Kageyama**, non-executive (resigned on 10 January 2024)
- **K Oida**, non-executive (resigned on 10 January 2024)

Following the CMA clearance of the acquisition of the Company by Pennon Group plc on 14 June 2024, the following directors from Pennon Group plc were appointed to the Board of SES Water – Susan Davy, Gill Rider and Andrew Garard.

SERVICE CONTRACTS

All current executive directors have service contracts and notice periods as detailed in the Remuneration Committee report on page 105.

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 87 to 89 and 97 to 109 respectively.

REAPPOINTMENT

The articles of association provide that directors must retire at every Annual General Meeting following their last election or reappointment, which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the 'Code'), that all directors should be subject to annual election. Information regarding the appointment of directors is included in the Nomination Committee report on pages 87 to 89.

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.

Until 10 January 2024, the Company was jointly owned by the major Japanese businesses, Sumitomo Corporation and Osaka Gas. Each had a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd.

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.

On 10 January 2024 Pennon Group plc acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Ltd the holding company of Sutton and East Surrey Water plc and certain other ancillary businesses, for £89 million from Sumitomo Corporation and Osaka Gas, with a total enterprise value of £380 million.

The full corporate structure, both pre- and post-acquisition by Pennon Group plc, is shown on page 7. 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 statutory accounts on page 154 and further detailed in the regulatory accounts in the Annual Performance Report.

The immediate parent of the Company is SESW Holding Company Limited (which wholly owns the Company and has remained in place post the Pennon Group plc acquisition) and was established at the time that the Company's £100m 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 154.

Up to 10 January 2024, the Company had 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 previous 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 previous controlling shareholders with respect to the Company is contained within the Corporate governance report on page 76. This agreement was terminated on 10 January 2024 following the acquisition.

DIRECTORS' INDEMNITIES AND INSURANCE

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

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

PRINCIPAL ACTIVITIES

The Company is engaged principally in the supply of water across the London Boroughs of Croydon, Merton and Sutton, as well as Reigate and Banstead, Epsom and Ewell and parts of Kent and West Sussex.

STAKEHOLDER ENGAGEMENT – EMPLOYEE ENGAGEMENT

Details of engagement by the directors during the year with the Company's employees is provided on pages 39, 54 and 79.

STAKEHOLDER ENGAGEMENT – OTHER ENGAGEMENT

Details of engagement by the directors during the year with the Company's other stakeholders is provided on pages 38 to 41.

FINANCIAL RESULTS AND DIVIDENDS

Financial performance for the year is described on pages 59 to 63 in the Financial review.

Revenue for the year-ended 31 March 2024 was £72.8m (2023: £67.4m). Loss before taxation was £25.3m compared with a loss in 2023 of £25.5m. A loss of £19.2m was deducted from reserves (2023: £19.5m loss deduction).

Details of appointed ordinary dividends declared and paid during the year are given in note 22 of the financial statements. The total dividend declared and paid for the year-ended 31 March 2024 was nil pence (2023: 0.6 pence) per ordinary share.

DIVIDEND POLICY STATEMENT

APPOINTED DIVIDENDS

Ofwat amended the Condition P of the Company's licence effective from 17 May 2023 introducing specific requirements for declaring and paying appointed dividends. The Company's existing dividend policy applicable for the year-ended 31 March 2024, set out below, is consistent with these licence changes.

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 that 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:

1. The overall level of service delivered to customers and the environment over time, compliance with statutory obligations, progress with the delivery of regulatory and other obligations and efficiency and the management of risks.

   Such other obligations will include delivering to our communities and employees – ensuring that 'in-the round' delivery is considered.

2. 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 will refer to any quantitative analysis required by reporting standards in support of such explanations.

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

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

3. The payments would cause significant harm to the Company's ability to finance itself and to its long-term financial resilience and the potential impact any distributions may have on customers or employees.
4. 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.
5. There would be any constraints on dividends resulting from the Company's current credit rating.

NON-APPOINTED DIVIDENDS

Non-appointed dividends are not governed by the appointed dividend policy noted above but are assessed separately based on the overall operational and financial performance of the non-appointed business, taking into account the levels of cash and distributable reserves related to the non-appointed business.

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

BOARD'S CONSIDERATION OF DIVIDENDS

APPOINTED DIVIDEND PAYABLE FOR THE YEAR-ENDED 31 MARCH 2024

The Board did not declare an interim or final dividend for the year-ended 31 March 2024.

The Company's generally good operational performance (with c70% of Performance Commitments achieved in the year) could have supported a dividend for the year-ended 31 March 2024. The Company managed effectively through the summer drought conditions without supply interruptions or a temporary use ban, maintained environmental compliance, ensured appropriate support was provided to vulnerable customers, delivered its leakage targets, consistently delivered high-quality water to its customers and improved D-MeX scores. Improvements are still required in areas where performance commitments were not achieved such as C-MeX.

However, the directors noted the Company's continued weak financial performance in the year due to considerable pressure from escalating supply costs, high network activity, lower revenue recovery, higher bad-debt charges and increasing adverse RPI accretion on our index-linked debt due to ongoing levels of high inflation. These factors reduced distributable reserves to marginally negative levels (pending a planned Yr 5 recapitalisation) and resulted in pressure on liquidity and the financial ratios associated with the Company's long-dated bond requiring new equity and other support from former and new shareholders. This weak financial performance and negative distributable reserves, combined with the uncertainty of future ownership during the strategic review, resulted in management determining that dividends for the year-ended 31 March 2024 should not be payable.

The directors' decision not to declare an interim or final dividend payable for the year-ended March 2024 is consistent with the new dividend policy licence conditions introduced by Ofwat in May 2023.

Dividends paid in the year-ended 31 March 2024

	2024	2023
Dividends paid – appointed	**nil**	£3.1m
Dividends paid – non-appointed	**nil**	£5.0m

APPOINTED DIVIDENDS PAID IN THE YEAR-ENDED 31 MARCH 2024

Due to the timing of appointed dividends declared and paid, the appointed dividend paid in the year-ended 31 March 2024 would typically comprise the final appointed dividend from the year-ended 31 March 2023 and the interim appointed dividend payable in respect of the year-ended 31 March 2024 (normally paid in December 2023).

The total appointed dividends paid in the year-ended 31 March 2024 of £nil (2023: £3.1m) represents, on this mixed year basis, a dividend yield of nil% (2023: 4.0%). This prior-year dividend was calculated using the latest revolving credit facility and net debt amounts for the Company and applying Ofwat's allowed level of return as defined in the Company's Final Determination.

NON-APPOINTED DIVIDENDS PAID IN THE YEAR-ENDED 31 MARCH 2024

Dividends paid in 2023/24 by the non-appointed business were nil (2023: £5.0m).

The non-appointed dividends were paid in prior year to East Surrey Holdings (ESH) Limited from the accumulated profits and cash generated by the non-appointed business of the Company (accumulated over a number of years from non-appointed activities such as billing on behalf of Thames Water and not distributed in recent years). These monies were retained within the ESH Group and were not distributed to the ultimate shareholder, but were being utilised, under the approval of the ESH Board, for other ESH Group activities.

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 14 to 17.

RESEARCH AND DEVELOPMENT

SES Water develops and deploys award-winning innovative solutions and also contributes significantly to the national innovation agenda. Building on our smart water network expertise, we are applying the learning we have gained regarding the Internet of Things and Artificial Intelligence into our above-ground asset solutions. Recognising the value in sharing our knowledge with the wider water industry, we became the first UK water company to provide in-depth industry webinars, both of which attracted worldwide attention and were hosted on the new water industry Spring Innovation platform, as well as presenting our findings at a number of national and international conferences.

We are currently participating in six Ofwat Innovation funded projects run by other water companies, and in addition we have successfully secured our own innovation funding from Ofwat to develop a universal access point for water. In recognition of our expertise and innovation, we were awarded the Innovation Award at the Utility Week Awards for our smart network and have been shortlisted for the Asset Management Initiative of the Year Award at this year's Water Industry Awards.

GREENHOUSE GAS EMISSIONS

Greenhouse gas emissions have been reported using the UKWIR Carbon Accounting Workbook (CAW) Version 18.03.01. This uses Global Warming Potential values for 100-year time horizon from the IPCC Sixth Assessment Report AR6 for the UK water industry specific calculations and AR5 where UK government conversion factors are used. The data has been externally verified against ISO14064-1.

For 2023-24, CAW18_v03.01 was used, and the data externally verified against ISO14064-1.

Net operational greenhouse gas emissions (market-based reporting) in 2023/24 were 2,210 tonnes of carbon dioxide equivalent (tCO_2e) (2022/23: 2,289 tCO_2e), a 3.5% decrease on the previous year. This equates to operational emissions of 36.5 $kgCO_2e$ per million litres of treated water (2022/23: 36.8 $kgCO_2e$/Ml). Using 2022/23 emissions factors, operational emissions for 2023/24 would be equivalent to 2,211 tCO_2e, or 36.5 $kgCO_2e$ per million litres of treated water.

Using 2019/20 emissions factors, as required in our PR19 Greenhouse Gas Emissions Performance Commitment, operational emissions for 2023/24 would be: 2,437 tCO_2e, 40.3 $kgCO_2e$/Ml.

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions)
- Scope 2 (Indirect energy use emissions)
- Scope 3 (Emissions from outsourced services and business travel)

	FY2024 (tCO_2e)
Scope 1	928
Scope 2	–
Scope 3*	1,281

* To enable like for like comparison with previous years, excludes emissions from chemicals and upstream emissions of purchased fuels required for Ofwat report from 23/24.

Operational greenhouse gas emissions for 2023/24 for the regulated business include (2022/23 emissions are in brackets):

- Gas consumption: 804,673 kWh and 147 tCO_2e (947,045 kWh and 173 tCO_2e)
- Consumption of travel fuels: 1,654,077 kWh and 419 tCO_2e (1,679,218 kWh and 424 tCO_2e)
- Purchase of electricity by the Company for its own use, including for transport: 53,211,063 kWh and 0 tCO_2e (54,332,386 kWh and 0 tCO_2e)

Note: all conversions are using the relevant 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 includes an estimate of business miles in company cars which are refunded through expenses. This is because the distance information is not practical to obtain. The Company is exploring options to digitise the expenses process to make this information more accessible.

The data for purchased electricity refers solely to the Scope 2 emissions, and excludes any Scope 3 emissions that arise from Transmission and Distribution through the network.

In 2023/24 we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. The Company has 42 charging points across 100% of our operational treatment works and head office. The Company has solar panels installed at five treatment works and at its Redhill head office. In 2023/24 these generated 289,755 kWh (2022/23: 336,548 kWh).

CHARITABLE AND POLITICAL DONATIONS

During the year, the Company made charitable donations amounting to £14,139 (2023: £32,132). There were no political donations (2023: nil).

PAYMENT TO SUPPLIERS

Settlement terms are agreed with suppliers as part of contract terms and it is the Company's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. As a result of a review of supplier payment terms, creditor days have increased to approximately 49 days (2023: 36 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 83 to 84 and are incorporated by reference in this report.

FINANCIAL INSTRUMENTS

The Company policy in relation to the use of financial instruments can be found in note 18 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 12 June 2024 the Company successfully refinanced its two revolving credit facilities (RCFs) (resulting in a single £65.0m RCF with an expiry date of 12 December 2025).

On 14 June 2024 the CMA published its clearance of the merger of SES Water with South West Water, following the acquisition announced on 10 January 2024.

DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

CORPORATE GOVERNANCE

The Company's statement on corporate governance can be found in the Corporate governance report on pages 76 to 86 of this Annual Report. The Corporate governance report forms part of this Directors' report and is incorporated into it by reference.

ANNUAL GENERAL MEETING

The 2024 Annual General Meeting (AGM) will be held on 26 September 2024. Full details of the resolutions proposed to shareholders, and explanatory notes in respect of these resolutions, can be found in the notice of AGM, a copy of which can be found on the SES Water website. At the 2024 AGM, resolutions will be proposed, amongst other matters, to receive the Annual Report and financial statements; to approve the directors' remuneration report; and to reappoint PwC as statutory auditors.

By Order of the Board

Paul Kerr
Chief Financial Officer & Company Secretary

Redhill, Surrey
10 July 2024
Company number 02447875

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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 also 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

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.

Strategic Report
Governance
Financial Statements
Group Information

INDEPENDENT AUDITOR'S 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 2024 and of its loss 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, including 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 accounts (the "Annual Report"), which comprise: the balance sheet as at 31 March 2024; the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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

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.

During 2023 we identified that the firm had been engaged by Sumitomo Corporation Europe Limited, a group company of Sumitomo Corporation which had joint ownership of the entity that was at that time the ultimate parent of the Company, Sumisho Osaka Gas Water UK Limited, to provide tax compliance services to entities which included Sumisho Osaka Gas Water UK Limited. These services are not permissible to a UK parent undertaking of a public interest entity and amounted to a breach of paragraph 5.40 of the FRC's Revised Ethical Standard 2019. The services were completed in March 2023. The tax balances and treatment covered by the service are not part of the Company's financial statements.

We confirm that, based on our assessment of this breach, the nature and scope of the service and the subsequent actions taken, the provision of this service has not affected our professional judgements in connection with our audit of the year ended 31 March 2024.

Other than those disclosed in note 6, we have provided no non-audit services to the company in the period under audit.

OUR AUDIT APPROACH

OVERVIEW

AUDIT SCOPE

- 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. The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

KEY AUDIT MATTERS

- Assessment of recoverability of household trade debtors.
- Accuracy of measured income accrual.

MATERIALITY

- Overall materiality: £600,000 (FY23: £600,000) based on approximately 0.13% of total assets.
- Performance materiality: £450,000 (FY23: £450,000).

THE SCOPE OF OUR AUDIT

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

KEY AUDIT MATTERS

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

This is not a complete list of all risks identified by our audit.

Salary cost capitalisation, which was a key audit matter last year, is no longer included because of the judgement and estimation being evaluated in the previous year with no material change applied in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
ASSESSMENT OF RECOVERABILITY OF HOUSEHOLD TRADE DEBTORS Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £7.5m as at 31 March 2024 (2023: £9.3m) (refer to Note 15 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. 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. There is judgement around whether to apply overlays to the calculation; this will be necessary where there is evidence that future cash collections will not be faithfully represented by historic losses per the calculation. The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	(i)Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the company's accounting policy and FRS 101. (ii) Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions. (iii) Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. (iv) Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. (v) Challenging the appropriateness of applied overlays to the calculation for FY24 (vi) 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. (vii) Checking that the ECL was applied to all relevant household receivable categories, including accrued income. (viii) Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements. (ix) We also considered whether there was any Management bias in how the assumptions and estimates had been derived. (x) Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.
ACCURACY OF MEASURED INCOME ACCRUAL Management have recorded a measured income accrual of £9.5m (2023: £8.4m), (refer to Note 3.1 of the financial statements), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit. This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: (i) agreeing the last meter read date to source data on a customer level; (ii) performing a recalculation of the number of days since the last meter read date to year-end; (iii) recalculating the daily average consumption rate based on the last three meter readings,comparing the recalculated average against the detailed listing; and iv) testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2024. We performed risk-based testing of the largest accruals to test for anomalous readings. In addition, we obtained a look-back assessment from Management, which compares the FY23 accrued income by customer against the amounts subsequently billed for FY23, noting the FY23 accrual to have been materially accurate. We performed sample testing to verify that the inputs to the model (i.e. the subsequent bill and FY23 accrual) agreed to source data. Our results: We found Management's estimation of the measured income accrual 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.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The company has one finance function, based in the UK, and no shared service departments.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

As part of our audit, we have made enquiries of Management to understand their process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the Environmental, Social and Governance (ESG) Committees throughout the year, in addition to attending one such Committee meeting. While management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2024. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

MATERIALITY

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

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

OVERALL COMPANY MATERIALITY	£600,000 (FY23: £600,000).
HOW WE DETERMINED IT	Approximately 0.13% of total assets (FY23: approximately 0.13% of total assets)
RATIONALE FOR BENCHMARK APPLIED	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Sutton and East Surrey Water Plc is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we determined that the total asset base is the most appropriate benchmark, aligned to the key focus of the Board and its Shareholders on the maintenance and investment in the infrastructure it owns and operates. We also concluded that total assets is a less volatile measure compared to revenue and profit based measures. For FY22 a profit-based measure was used. However, due to this volatility, and for the reasons given above, it was changed to an asset-based benchmark in FY23, and has been continued for FY24. For Public Interest Entities (PIEs) a percentage of up to 1% of total assets is typical. However, we have considered other benchmarks (such as revenue and profit before tax) and lowered the percentage down from this typical level of 1% of total company assets to approximately 0.13%, which we deemed to be most appropriate materiality and more suitable for the size and scale of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY23: 75%) of overall materiality, amounting to £450,000 (FY23: £450,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee of the company that we would report to them misstatements identified during our audit above £30,000 (FY23: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Initial discussions with Management and the Audit Committee to understand the going concern risks facing the company, which predominantly related to uncommitted funding requirements over the going concern assessment period, with such additional funding being required for the purpose of both liquidity and in order to meet debt covenant requirements.
- Review of Management's cash flow and covenant ratio forecasts, which included verifying the mathematical accuracy and performing reasonableness checks of key assumptions (such as capital spend, revenue growth and cost inflation). This allowed for the total uncommitted funding requirement over the 12 month going concern forecast period to be known, both on a base case and on severe but plausible downside scenarios.
- Reviewing the letter of support from the ultimate shareholder to verify that the appropriate level, nature and duration of commitment was included.
- Holding meetings with management representatives of the ultimate shareholder to verify that; appropriate approvals had been granted for the letter to be signed, the funding requirements of Sutton and East Surrey Water Plc were well understood (both on a base case as well as severe but plausible downside scenarios), that there were no significant conditions associated with the support committed; and, that there were sufficient cash resources available to the shareholder to provide the necessary support.
- Inspection of most recent audited financial accounts of the shareholder to verify that sufficient resources exist such that the necessary commitment could be issued.
- Review of the appropriateness of disclosures presented in the financial statements in connection with the going concern assumption.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

CORPORATE GOVERNANCE STATEMENT

- ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.
- Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:
- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee of the company.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities in respect of the 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as The Companies Act 2006 and UK Corporation Tax legislation. 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;
- review of corporate tax calculations and VAT filings for compliance with applicable laws and regulations;
- 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 the recoverability of trade debtors and accuracy of the measured income accrual, including the disclosure of such matters in the financial statements;
- identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue; and
- incorporating elements of unpredictability into the audit procedures performed.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

USE OF THIS REPORT

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

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

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

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

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee of the company, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2020 to 31 March 2024.

OTHER VOLUNTARY REPORTING

DIRECTORS' REMUNERATION

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

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

Richard French
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants
and Statutory Auditors

London

10 July 2024

PROFIT AND LOSS ACCOUNT
FOR YEAR-ENDED 31 MARCH

	Notes	2024 £'000	2023 £'000
Revenue	5	**72,829**	67,446
Operating costs	6	**(67,271)**	(62,818)
Other operating income	7	**117**	1,097
Net impairment losses on financial and contract assets	16	**(1,325)**	(1,458)
Operating profit		**4,350**	4,267
Finance income	9	**826**	855
Finance costs	9	**(30,491)**	(30,612)
Finance costs – net		**(29,665)**	(29,757)
Loss before income tax		**(25,315)**	(25,490)
Income tax credit	10	**6,072**	5,979
Loss for the financial year		**(19,243)**	(19,511)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR-ENDED 31 MARCH

	Notes	2024 £'000	2023 £'000
Loss for the year		**(19,243)**	(19,511)
Other comprehensive expense			
Items that will not be classified to profit or loss			
Actuarial loss on pension scheme	20	**(1,202)**	(17,248)
Movement on deferred tax relating to pension scheme	19	**301**	4,312
Total comprehensive expense for the year		**(20,144)**	(32,447)

BALANCE SHEET
AS AT 31 MARCH

	Notes	2024 £'000	2023 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**10,625**	9,659
Property, plant and equipment	12	**376,782**	369,840
Right-of-use assets	12	**1,255**	816
Pension asset	20	**6,435**	9,211
		398,184	392,613
Current Assets			
Inventories	14	**432**	377
Trade and other receivables	15	**29,784**	27,758
Contract assets		**6,654**	5,862
Cash and cash equivalents	25	**48,256**	38,957
		85,126	72,954
Total Assets		**483,310**	465,567
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(255,026)**	(272,853)
Lease liabilities	13	**(867)**	(530)
Deferred tax liabilities	19	**(34,826)**	(43,724)
Pension deficit	20	**(1,332)**	(802)
		(292,051)	(317,909)
Current Liabilities			
Borrowings	18	**(65,000)**	(22,000)
Trade and other payables	17	**(42,129)**	(42,710)
Contract liabilities		**(4,562)**	(5,366)
Lease liabilities	13	**(437)**	(307)
		(112,128)	(70,383)
Total Liabilities		**(404,179)**	(388,292)
Net Assets		**79,131**	77,275
EQUITY			
Called up share capital	21	**73,489**	51,489
Profit and loss account		**5,642**	25,786
Total Equity		**79,131**	77,275

The financial statements on pages 123 to 154 were approved by the Board of Directors on 10 July 2024 and signed on its behalf by

Ian Cain
Chief Executive Officer

Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR-ENDED 31 MARCH 2024

	Notes	Called up share capital £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 April 2022		51,489	66,333	117,822
Loss for the year		–	(19,511)	(19,511)
Actuarial loss on pensions scheme	20	–	(17,248)	(17,248)
Movement on deferred tax relating to pension scheme	19	–	4,312	4,312
Total Comprehensive expense for the year		**–**	**(32,447)**	**(32,447)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(8,100)	(8,100)
Transactions with owners recognised directly in equity		**–**	**(8,100)**	**(8,100)**
Balance at 31 March 2023		**51,489**	**25,786**	**77,275**
Loss for the year		–	(19,243)	(19,243)
Actuarial loss on pensions scheme	20	–	(1,202)	(1,202)
Movement on deferred tax relating to pensions scheme	19	–	301	301
Total Comprehensive expense for the year		**–**	**(20,144)**	**(20,144)**
Transactions with owners in their capacity as owners:				
Issuance of shares	21	22,000	–	22,000
Dividends	22	–	–	–
Transaction with owners recognised directly in equity		**22,000**	**–**	**22,000**
Balance at 31 March 2024		**73,489**	**5,642**	**79,131**

CASHFLOW STATEMENT

Year ended 31 March	Notes	2024 £'000	2023 £'000
Loss for the year		**(19,243)**	(19,511)
Adjustments for:			
Finance income	9	**(826)**	(855)
Finance costs	9	**30,491**	30,612
Net impairment losses on financial and contract assets	16	**1,325**	1,458
Depreciation of property, plant and equipment	12	**13,360**	12,497
Depreciation of right-of-use assets	12	**391**	252
Amortisation of intangible assets	11	**1,151**	899
Gain on disposal of property, plant and equipment		**(117)**	(79)
Section expenses		**446**	365
Increase in inventories		**(55)**	(92)
Increase in trade and other receivables		**(2,855)**	(5,483)
(Decrease)/increase in trade and other payables		**(2,464)**	1,554
Decrease in amounts due to related companies		**(2,894)**	(777)
Income tax credit	10	**(6,072)**	(5,979)
Interest paid		**(11,180)**	(8,174)
Income taxes (paid)/refunded		**(202)**	1,512
Net cash generated by operating activities		**1,256**	8,199
Investing activities			
Purchase of property, plant and equipment		**(20,032)**	(22,499)
Purchase of intangible assets	11	**(2,117)**	(776)
Proceeds from sale of property, plant and equipment		**145**	105
Interest received	9	**454**	172
Net cash used in investing activities		**(21,550)**	(22,998)
Financing activities			
Proceeds of RCF	18	**-**	20,000
(Repayment)/proceeds of Shareholders loan	18	**(7,000)**	7,000
Proceeds of other borrowings	18	**40,000**	–
Repayment of RCF	18	**(10,000)**	(4,000)
Principal elements of lease payments	13	**(407)**	(246)
Proceeds from issuance of shares	21	**22,000**	–
Dividends paid	22	**-**	(8,100)
Net cash generated from financing activities		**44,593**	14,654
Net increase/(decrease) in cash and cash equivalents		**24,299**	(145)
Net cash and cash equivalents at the beginning of the year		**23,957**	24,102
Net cash and cash equivalents at the end of the year net of bank overdraft	25	**48,256**	23,957

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its licence and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ, United Kingdom. The Company is limited by shares

According to the licence conditions under which the Company operates as a water-only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

Following a year-long strategic review, on the 10th of January 2024, Pennon Group Plc acquired East Surrey Holdings and subsidiaries, including the Company. This was subsequently approved by the CMA on 14 June 2024.

2 MATERIAL ACCOUNTING POLICY INFORMATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with The Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS)
  - 38B-D (additional comparative information)
  - 40A (requirements for a third balance sheet)
  - 111 (statement of cashflows information), and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements)
  - 113(a) (separate sources of revenue)
  - 115 (disaggregated of revenue)
  - 118 (explanation of changes in contract assets and liabilities)
  - 120 to 121 (transaction price allocated to the remaining performance obligations)
  - 129 (practical expedients).

2.1.1 GOING CONCERN

The Company'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 1 to 71.

The financial position of the Company is set out in the Financial Review. Note 2.26 of the financial statements on pages 137 and 138 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.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

In making this assessment, the directors have noted that no repayments of the Company's long-dated bond or private placement notes are due within the next 12 months and on 12 June 2024 the Company successfully refinanced its two revolving credit facilities (RCFs) (resulting in a single £65.0m RCF with an expiry date of December 2025).
In addition, the directors have noted that subsequent to the re-financing and consistent with the recently submitted PR24 Business Plan, equity support will be required in the next 12 months to ensure the Company meets its liabilities as they fall due and operates within the gearing limits set out in our long-dated bond and private placement notes.

The directors' conclusions on the going concern basis therefore reflect the recent CMA approval of the Pennon Group plc's acquisition of the Company and the commitment from Pennon Group plc (the ultimate shareholders of the Company) in the form of a letter of financial support for the next 18 months to December 2025.

The directors have assessed and are satisfied with the Pennon Group plc's ability and intent to fulfil the requirement of the support letter.

The directors have also considered plausible downside scenarios having regard to operational matters, the ongoing high inflationary environment, the Company's forecast liquidity and the long-term bond covenants.
If required the Company has a number of mitigating actions to deal with liquidity issues, including further future RCF and debt financing, re-scoping and deferral of capital projects, and the written commitments from Pennon Group plc through the aforementioned letter of support to address the downside scenarios.

SES Water (the 'Appointee') is the only entity within the regulatory ring-fence required by Appointee's licence. The directors have considered the financing of other entities outside of the regulatory ring-fence and within the wider SES Group Holdings, and are not aware of any entity's external debt that would result in an issue with respect to SES Water's going concern status. In accordance with SES Water's licence none of the debt outside the ring-fence is guaranteed by SES Water and there is no cross-default in SES Water's debt to the debt outside the ring-fence.

2.1.2 NEW STANDARDS, AMENDMENTS, IFRIC INTERPRETATIONS AND NEW RELEVANT DISCLOSURE REQUIREMENTS

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year-ended 31 March 2024 that have a material impact on the Company's financial statements.

The Company has evaluated the impact of the new guidance on the financial statements and does not expect these to have a material impact.

2.2 CONSOLIDATION

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly owned subsidiary of SESW Holding Company Limited, wholly owned by East Surrey Holdings Limited, and of its ultimate parent, Pennon Group plc. It will be included in the consolidated financial statements of East Surrey Holdings Limited which will be publicly available from their registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It has been included in the consolidated financial statements of Pennon Group plc which will be publicly available from their registered office, Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.

2.3 FOREIGN CURRENCY TRANSLATION

2.3.1 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in pounds sterling (£), which is also the Company's functional currency.

2.3.2 TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant & equipment:

- **Land**
- **Collections reservoir**

This is the Company's primary reservoir for collecting fresh water.

- **Buildings, including service reservoirs and boreholes**

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

- **Mains network**

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe or then it is categorised as repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

The relining of a main is the work needed to keep a main in good condition and is maintenance so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

- **Plant and machinery (heavy)**

Heavy plant and machinery consist of heavy plant used in the course of construction such as excavators, as well as water treatment equipment and water pumps.

- **Motor vehicles**

This balance includes those motor vehicles such as cars and vans.

- **Sundry plant**

Sundry plant consists of small tools used in construction as well as the company's IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost.

Borrowing costs that have been capitalised as property, plant and equipment are included within 'Purchase of property, plant and equipment' within investing activities in the statement of cashflows. All other borrowing costs are included as finance expenses within the profit and loss account. During the year £207,000 interest was capitalised by the Company at an interest rate of 6.1%.

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in 'IAS23 – Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

- The duration of the project must be for greater than six months. Any asset taking less than six months to contract would not qualify as taking a significant amount of time
- The project must be greater than £50k of a £20m capital programme per year. For the asset to be significant enough to be considered a qualifying asset it must cost at least £50k. Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were general funding not available
- Ongoing programmes in the ordinary course of business are excluded (i.e., metering and directly managed spend such as network maintenance activity)
- Developer Services capital expenditure is excluded as this is separately funded. This expenditure is funded externally by customers so it would not require external borrowing and therefore does not qualify
- Capitalisation of borrowing costs must cease when the project is deemed to have reached 'beneficial use' stage and a corresponding asset has been created. Total costs cease to have interest incurred capitalised when the project is in beneficial use or for any periods where a break from construction occurs.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
• Land	n/a
• Collections reservoirs	140-150
• Buildings including boreholes and service reservoirs	5-100
• Mains network	15-100
• Plant and machinery (heavy)	3-100
• Motor vehicles	2-6
• Sundry plant	2-26

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

2.5 INTANGIBLE ASSETS AND GOODWILL

2.5.1 SOFTWARE COSTS

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between one and 15 years.

2.5.2 INTERNALLY GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 GOODWILL

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the cash-generating unit (CGU) that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 IMPAIRMENT OF GOODWILL

The Company as a whole is defined as the CGU as assets are not able to independently generate cashflows.

The recoverable amount of the CGU is deemed to be the higher of fair value less disposal cost (FVLDC) and value in use. The best evidence for FVLDC would be an arm's length transaction, less a disposal cost.

As SES Water Group was acquired by the Pennon Group Plc on the 10th of January 2024, (through the acquisition of SES Water Plc's parent company), the acquisition cost is considered the FVLDC.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

A value in use assessment has not been required as there is no indication of impairment.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 FINANCIAL LIABILITIES

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 FINANCIAL ASSETS

Financial assets can be classified as all being held at:

- amortised cost
- fair value through profit or loss (FVTPL), and
- fair value through other comprehensive income (FVTOCI).

The classification depends on the purpose for which the financial assets were acquired, i.e., the entity's business model for managing the financial assets and/or the contractual cashflow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 FINANCIAL ASSETS AT AMORTISED COST

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms of the financial asset give rise to cashflows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'Net impairment losses on financial and contract assets'.

2.9 IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

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

2.10 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The costs are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Management recognises a provision for obsolete stock as follows:

- between one and two years – 50%
- two years and older – 100%.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cashflows and therefore recognises them initially as current assets at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets (standard payment terms are 30 days, so this is not applicable in the ordinary course of business). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers, but not yet invoiced, have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £6.7m (2023: £5.9m) as a result of unbilled measured household income.

2.12 CASH AND CASH EQUIVALENTS

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

Included in the cash and cash equivalents is a restricted cash balance (note 25) owned by the Company relating to the secured index-linked bond.

2.13 PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

During the year-ended 31 March 2024, the Company agreed an amendment to the terms of £100m collateral bond deed by removal of adjusted interest cover ratio to align with rest of industry. This resulted in an amendment fee of £0.75m which will be paid over the next ten years but taken to the profit and loss account in the current year.

2.15 BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 TAXATION

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 POST EMPLOYMENT BENEFITS

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 PROVISIONS

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

- the Company has a present legal or constructive obligation as a result of past events
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- the amount has been reliably estimated.

No such provision was required for FY24 or FY23. Provisions are not recognised for future operating losses.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company's activities are described in detail below.

The core principles of IFRS 15 'Revenue from contracts with customers' are:

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

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Company considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (note 3.5).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six monthly in arrears (see note 3.1).

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

2.19.1 WATER REVENUE (APPOINTED INCOME) – HOUSEHOLD AND WHOLESALE REVENUE

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

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

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

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

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.1).

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

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 EMPTY PROPERTIES – HOUSEHOLD REVENUE

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

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

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

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

2.19.3 DEVELOPER SERVICES (APPOINTED INCOME) – OTHER WATER REVENUE

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of Developer Services charges are available on the Company's website and described below:

2.19.3.1 NETWORK EXTENSIONS

Network extensions relate to the Company laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

2.19.3.2 SERVICE CONNECTIONS

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see note 2.24) for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the tariff, with the Company's performance commitment being to connect the property to the Company's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Company's network and revenue is recognised when this connection is made.

2.19.3.3 DIVERSIONS

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

2.19.3.4 INFRASTRUCTURE CHARGES

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

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

The transaction price is the amount of consideration the Company expects to receive based on the tariff rate.

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

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.19.4 COMMISSION INCOME – NON-APPOINTED INCOME

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

2.19.5 GARAGE REVENUE – NON-APPOINTED INCOME

The Company receives a revenue for the servicing, repair, and provision of MOT facilities to third parties by the Company's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

2.20 INTEREST INCOME/(EXPENSE)

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 LEASES

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of five years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 ROUNDING OF AMOUNTS

All amounts in the financial statements and notes have been rounded off to the nearest thousand pounds sterling, unless otherwise stated.

2.24 CONTRACT LIABILITIES

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

Contract liabilities have decreased to £4.6m (2023: £5.4m) mainly due to a drop in monies received for the annual bill being less this year than in the prior year.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £5.4m as all the money received in advance at 31 March 2024 has been billed in the current financial year.

2.25 INSURANCE RECEIPTS

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cashflow management consider the nature of the transaction:

- Insurance receipts relating to damaged PPE represent 'in substance' a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.26 MANAGING RISK

2.26.1 CREDIT RISK

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meet its obligations.

2.26.2 INTEREST RISK

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

The £100.0m long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cashflow impact on the Company.

The bond was issued on 21 March 2001, carrying an AAA rating, and is secured upon the shares of Sutton and East Surrey Water Plc. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.

Unamortised issue costs of £3.1m (2023: £3.7m) are netted against the carrying value of the bond and included within the effective interest charge.

The debentures are at fixed rates of interest.

The Company also has access to borrowings in the form of a current account overdraft and during the year had access to two RCFs. Overdraft interest rates are at a variable rate above base rate, and RCF interest is at a margin above SONIA.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.26.3 SENSITIVITY ANALYSIS

A change of 100 basis points in interest rates of the bond at the balance sheet date would have (increased)/decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

The analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for the prior year.

As at year-ended 31 March	**2024 £'000**	2023 £'000
Equity		
Increase	**(749)**	(681)
Decrease	**749**	681
Profit before tax		
Increase	**(749)**	(681)
Decrease	**749**	681

2.26.4 LIQUIDITY RISK

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below:

As at year-ended 31 March	**2024 £'000**	2023 £'000
Maturities		
Between one and two years	**190,103**	113,060
More than five years	**129,923**	159,793
	320,026	272,853

The facilities available at the balance sheet date are unsecured. Current unutilised facilities available to the Company are set out below:

As at year-ended 31 March	**2024 £'000**	2023 £'000
Expiring		
In less than one year	**11,000**	–
Between one and two years	**-**	–
More than five years	**-**	1,000
Total	**11,000**	1,000

2.27 THE IMPACT OF CLIMATE CHANGE

The water industry plays a key role on the impact of climate change and management of climate-related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the goodwill impairment process. The financial reporting impact from the physical and transitional risks of climate change can be seen on pages 48 and 51.

Management has also performed a review any other impacts of climate change on the financial reporting including review of UEL for climate risks and noted no material impact.

3 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

3.1 ESTIMATE – UNBILLED MEASURED INCOME ACCRUAL (CONTRACT ASSET)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amount of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. The unbilled measured income accrual was £9.5m (2023: £8.4m)

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £380k (2023: £430k).

3.2 JUDGEMENT – DEFINED BENEFIT PENSION SCHEME

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

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in note 20. The carrying value of the pension asset is £6.4m (2023: £9.2m) and the liability is £1.3m (2023: £0.8m).

3.3 ESTIMATE – PROVISION FOR DOUBTFUL DEBT

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write-off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for. A management judgment is applied to the provision where appropriate. The provision of doubtful debt carrying value is £7.5m (2023: £9.3m).

3.4 JUDGEMENT – CAPITALISATION OF EXPENDITURE AS FIXED ASSETS

The Company makes large-scale investment into its fixed assets through construction and engineering projects.

Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increases the capacity of the network, providing the asset meets the criteria to be capitalised. This includes an element of employee costs where the individuals contribute to the overall capital programme but not specifically on an individual project. An estimation of time spent on capex-related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

3.5 ESTIMATE – DERECOGNITION OF REVENUE

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least three years. This resulted in derecognising £1.0m of revenue in FY24, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.3m and £0.3m respectively.

4 SEGMENTAL INFORMATION

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision-Maker ('CODM') of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey, West Sussex, West Kent and South London). Management considers the UK to be the geographical location of business.

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale customers)

During the year-ended 31 March 2024, tariffs for household and non-household customers increased year on year and non-household volumes continued its steady recovery to pre-pandemic levels. The increased tariffs impacted both measured household and non-household revenues compared to the prior year.

Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue.

5 REVENUE

Year-ended 31 March	2024 £'000	2023 £'000
Unmeasured water revenue (household)	**20,657**	20,850
Measured water revenue (household)	**35,527**	31,476
Total household revenue	**56,184**	52,326
Wholesale revenue from retailers (non-household)	**11,188**	9,662
Other water revenue	**560**	778
Non-water revenue	**2,646**	2,303
Non-appointed income	**2,251**	2,377
Total revenue	**72,829**	67,446

6 OPERATING COSTS

Operating profit is stated after charging:

Year-ended 31 March	Notes	2024 £'000	2023 £'000
Wages and Salaries		**11,804**	11,835
Social Security Costs		**1,644**	1,781
Other Pension Costs	20	**2,300**	2,006
Staff Costs		**15,748**	15,622
Power		**8,264**	6,821
Raw materials and consumables		**4,848**	4,030
Rates		**3,275**	3,468
Subcontractors		**6,976**	6,875
Insurance		**1,066**	1,064
Other operating costs		**9,092**	8,388
Depreciation charge on property, plant and equipment	12	**13,360**	12,497
Depreciation of right-of-use assets	12	**391**	252
Amortisation charge on intangible assets	11	**1,151**	899
Legal and professional fees (excluding auditors' fees)		**2,643**	2,363
Fees payable to the Company auditor for the audit of annual financial statements		**341**	434
Fees payable to the Company's auditor and associates for other services:			
• Audit of regulatory financial statements		**58**	55
• Audit-related assurance services		**58**	50
Operating Costs		**67,271**	62,818

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £3,441,867 (2023: £3,629,472) were capitalised to fixed assets.

Net Operating Costs can be analysed as:

	2024 £'000	2023 £'000
Cost of sales	**48,878**	45,709
Administration expenses	**18,393**	17,109
	67,271	62,818

7 OTHER OPERATING INCOME

Year-ended 31 March	2024 £'000	2023 £'000
Other operating income	**–**	1,018
Profit on sale of fixed assets	**117**	79
Other operating income	**117**	1,097

8 EMPLOYEES AND DIRECTORS

The average number of employees in the year was:

Year-ended 31 March	2024 number	2023 number
Operations	**181**	177
Retail	**83**	79
Support	**85**	89
Other	**1**	1
Total	**350**	346

DIRECTORS' EMOLUMENTS

Directors' emoluments for the year were as follows:

Year-ended 31 March	2024 £'000	2023 £'000
Aggregate emoluments	**1,459**	1,092
Aggregate amounts receivable under long-term incentive schemes	**216**	200

The above emoluments amount includes pension related costs of £50,000 (2023: £46,000).

HIGHEST PAID DIRECTOR

The highest paid director's emoluments were as follows:

Year-ended 31 March	2024 £'000	2023 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**700***	544

* Included in the emoluments amount was a payment from the shareholder of £120k for services on the sale of East Surrey Holdings group. These were funded directly by the shareholder and not paid for out of the Company.

The above total emoluments amounts includes pension related costs of £24,000 (2023: £22,000).

9 FINANCE COST – NET

Year-ended 31 March	2024 £'000	2023 £'000
Finance income		
Expected return on pension scheme assets	**3,634**	3,124
Interest paid on post-retirement liabilities	**(3,262)**	(2,441)
Other interest receivable	**454**	172
Total finance income	**826**	855
Finance expense		
Interest on index-linked bond	**6,225**	5,547
Indexation of bond	**18,180**	22,111
Bond fee amortisation	**1,218**	569
Other interest expenses	**4,868**	2,385
Total finance expenses	**30,491**	30,612
Net finance cost	**29,665**	29,757

During the year the Company incurred £30.5m of finance costs (2023: £30.6m) mainly relating to accretion of the index-linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £3.9m decrease in indexation costs due to a drop in the current year of the Retail Price Index (RPI) rate. In July 2022, the annual inflation change was 12.3%, in July 2023 it decreased to 9.0%. Inflation slowed down by 3.3 percentage points and the indexation charge decreased by 17.8%. There is an 8 month lag between publication of the RPI in July and the Company March year end.

Bond fee amortisation increased due to an amendment to the terms of £100m collateral bond deed by removal of adjusted interest cover ratio. This resulted in a fee of £0.75m to be paid over the next ten years, however was included in the profit and loss statement at its present value.

10 INCOME TAX CREDIT

Year-ended 31 March	Notes	2024 £'000	2023 £'000
Tax (credit)/charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**(157)**	–
Adjustments in respect of prior periods		**537**	528
Total current tax		**380**	528
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**11**	69
Origination and reversal of temporary differences – other		**(2,943)**	(2,207)
Tax losses		**(3,192)**	(2,664)
Impact of change in tax rate		**–**	(1,495)
Adjustments in respect of prior periods		**(328)**	(210)
Total deferred tax		**(6,452)**	(6,507)
Income tax credit		**(6,072)**	(5,979)
Tax credit included in other comprehensive expense:			
Deferred tax:			
Movement in relation to pension scheme	19	**301**	4,312
Total tax credit included in other comprehensive expense		**301**	4,312

10 INCOME TAX CREDIT CONTINUED

Tax credit for the year is lower (2023: higher) than the standard rate of corporation tax in the UK for the year-ended 31 March 2024 of 25% (2023: 19%). The differences are explained below:

	2024 £'000	2023 £'000
Loss before taxation	**(25,315)**	(25,489)
Loss before taxation multiplied by the standard rate of tax in the UK of 25% (2023: 19%)	**(6,329)**	(4,843)
Effects of:		
Expenses not deductible for tax purposes	**48**	41
Remeasurement of deferred tax – change in UK tax rate	**–**	(1,495)
Adjustments in respect of prior periods	**209**	318
Tax credit	**(6,072)**	(5,979)

The standard rate of UK corporation tax for the year-ended 31 March 2024 is 25%.

FACTORS AFFECTING FUTURE TAX CHARGES

The Chancellor announced in the November 2023 Autumn Statement that full expensing on qualifying plant & machinery has been made permanent. This applied to plant and machinery (with an expected life of less than 25 years). The 50% first year allowance on long life plant and machinery has also been made permanent.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Group operates. The legislation will be effective for the Group's financial year beginning 1 April 2024. The Group has performed an assessment of the Group's potential exposure to Pillar two income taxes.

This assessment is based on the most recent financial information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rates in the only jurisdiction in which the Group operates, i.e. the UK, is above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Group does not expect a potential exposure to Pillar Two top-up taxes.

11 INTANGIBLE ASSETS

	Goodwill £'000	Software £'000	Work in Progress £'000	Total Software and Work in Progress £'000
Cost:				
At 1 April 2023	19,454	13,854	366	**14,220**
Additions	–	–	2,117	**2,117**
Transfer	–	1,051	(1,051)	**–**
As at 31 March 2024	**19,454**	**14,905**	**1,432**	**16,337**
Accumulated amortisation and impairment				
At 1 April 2023	16,367	4,561	–	**4,561**
Amortisation	–	1,151	–	**1,151**
As at 31 March 2024	**16,367**	**5,712**	**–**	**5,712**
Net book Value 31 March 2024	**3,087**	**9,193**	**1,432**	**10,625**
Net book Value 31 March 2023	3,087	9,293	366	**9,659**

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £368k (2023: £441k) and has a remaining amortisation period of five years (2023: six years) on a straight-line basis. Aptumo, the new billing system, went live in October 2021 and is used for all customer service operations and billing management. The asset is carried at £6.3m (2023: £6.9m) and has a remaining amortisation period of 13 years (2023: 14 years) on a straight-line basis.

12 PROPERTY PLANT AND EQUIPMENT & RIGHT-OF-USE ASSETS

	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes & service reservoirs) £'000	Mains network £'000	Plant and machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	**Total £'000**	Right-of-use assets £'000	**Total £'000**
Cost:											
At 1 April 2023	5,097	2,533	137,154	278,070	174,984	3,315	7,506	8,229	**616,888**	1,294	**1,294**
Additions	–	–	–	–	–	–	–	20,330	**20,330**	830	**830**
Transfer	7	–	186	11,207	11,570	31	510	(23,511)	**-**	–	**-**
Disposals	–	–	–	–	–	(370)	–	–	**(370)**	–	**-**
As at 31 March 2024	5,104	2,533	137,340	289,277	186,554	2,976	8,016	5,048	**636,848**	2,124	**2,124**
Accumulated depreciation and impairment											
At 1 April 2023	–	484	44,932	100,021	93,019	2,872	5,720	–	**247,048**	478	**478**
Depreciation charge	–	20	2,675	2,251	7,787	173	454	–	**13,360**	391	**391**
Disposals	–	–	–	–	–	(342)	–	–	**(342)**	–	**-**
As at 31 March 2024	–	504	47,607	102,272	100,806	2,703	6,174	–	**260,066**	869	**869**
Net book Value 31 March 2024	5,104	2,029	89,733	187,005	85,748	273	1,842	5,048	**376,782**	1,255	**1,255**
Net book Value 31 March 2023	5,097	2,049	92,222	178,049	81,965	443	1,786	8,229	**369,840**	816	**816**

Land comprises freehold land at £5,063k (2023: £5,056k) and long-leasehold land at £41k (£2023: £41k).

Included in assets under construction is £0.5m of capitalised costs relating to works completed on the PR24 price review in financial year ending March 23. These costs were incurred to March 23 but identified for capitalisation in year ending March 24 when the project completed its first milestone of submission to Ofwat.

13 LEASE LIABILITIES

The Company has lease contracts for Company vehicles the balances of which are included under 'right-of-use assets' in note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

As at 31 March	**2024 £'000**	2023 £'000
Right-of-use assets		
Vehicles	**1,255**	816
Total	**1,255**	816
Lease liabilities		
Current	**437**	307
Non-current	**867**	530
Total	**1,304**	837

Additions to the right-of-use assets during the financial year were £830k (2023: £445k).

13 LEASE LIABILITIES CONTINUED

The profit and loss account shows the following amounts relating to leases:

Year-ended 31 March	**2024 £'000**	2023 £'000
Depreciation charge of right-of-use assets:		
Vehicles	**391**	252
Interest expense (included in finance cost):		
Vehicles	**44**	28
Total	**435**	280

OTHER LEASE INFORMATION

Year-ended 31 March	**2024 £'000**	2023 £'000
The principal repayment for leases	**407**	246

14 INVENTORIES

As at 31 March	**2024 £'000**	2023 £'000
Raw materials and consumables	**432**	377
Total	**432**	377

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

15 TRADE AND OTHER RECEIVABLES

As at 31 March	Note	**2024 £'000**	2023 £'000
Current:			
Gross trade receivables		**30,663**	31,400
Expected credit loss	16	**(7,512)**	(9,313)
Net trade receivables		**23,151**	22,087
Amounts due from Group undertakings		**3,130**	1,235
Other receivables		**1,774**	2,844
Group relief receivable		**157**	–
Prepayments		**1,566**	1,560
Other taxes and social security		**6**	32
		29,784	27,758

16 EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors' general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% (adjusted by a management judgment) against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2024 £'000	2023 £'000
At 1 April	**9,313**	7,855
Charge for bad and doubtful debts – charged against operating costs	**1,325**	1,458
Receivables written off during the year as uncollectible	**(3,126)**	–
At 31 March	**7,512**	9,313

Ageing debt profile and credit loss provisions:

31 March 2024	< 6 mos £'000	6 mos-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	**Total £'000**
Expected credit loss – Household Metered	16.4%	38.1%	59.4%	76.7%	100.0%	
Outstanding customer debt*	4,223	1,369	1,887	821	1,098	**9,398**
Provision at expected credit loss	(694)	(522)	(1,120)	(629)	(1,098)	**(4,063)**
Specific provisions against contract assets	(203)	–	–	–	–	**(203)**
Loss allowance	(897)	(522)	(1,120)	(629)	(1,098)	**(4,266)**
Net outstanding customer debt	3,326	847	767	192	–	**5,132**
Expected credit loss – Household Non-Metered	3.1%	3.1%	70.1%	80.6%	100.0%	
Outstanding customer debt*	720	1,644	1,371	872	1,305	**5,912**
Provision at expected credit loss	(22)	(50)	(960)	(703)	(1,305)	**(3,040)**
Specific provisions against contract assets	–	–	–	–	–	**–**
Loss allowance	(22)	(50)	(960)	(703)	(1,305)	**(3,040)**
Net outstanding customer debt	698	1,594	411	169	–	**2,872**
Expected credit loss – Other Receivables	1.5%	9.8%	42.2%	49.7%	100.0%	
Carrying amount of trade receivable*	1,250	69	6	17	168	**1,510**
Provision at expected credit loss	(18)	(7)	(3)	(10)	(168)	**(206)**
Loss allowance	(18)	(7)	(3)	(10)	(168)	**(206)**
Net outstanding customer debt	1,232	62	3	7	–	**1,304**
Total loss allowance	(937)	(579)	(2,083)	(1,342)	(2,571)	**(7,512)**
Net trade receivable	5,256	2,503	1,181	368	–	**9,308**

* Gross credits received on account recorded in contract liabilities.

The £30.7m trade receivable amount in Note 15 is different to the amounts total trade receivables in this note as the amount in Note 15 includes waste water customers who the Company bills on behalf of.

17 TRADE AND OTHER PAYABLES

As at 31 March	**2024 £'000**	2023 £'000
Trade payables	**3,213**	4,514
Amounts owed to Group undertakings	**-**	999
Other creditors	**25,915**	24,757
Deposits from developers	**341**	373
Accruals	**12,660**	11,641
Group relief payable	**-**	426
Total Current Liabilities	**42,129**	42,710

18 BORROWINGS

As at 31 March	**2024 £'000**	2023 £'000
Current:		
Short-term bank and other loans	**65,000**	22,000
Total Current borrowings	**65,000**	22,000
Non-Current:		
2.874% secured index-linked bond 2027	**-**	38,060
2.874% secured index-linked bond 2027-2028	**86,547**	–
2.874% secured index-linked bond 2028-2031	**-**	159,691
2.874% secured index-linked bond 2029-2031	**129,821**	–
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long term bank and other loans	**38,556**	75,000
Total Non-Current borrowings	**255,026**	272,853

Amounts falling due within 5 years	**2024 £'000**	2023 £'000
Bank loans and borrowings	**86,547**	38,060
Short-term bank and other loans £25m SONIA +0.95% due in March 2025 and £40m SONIA +0.95% + CAS 0.0252% due in July 2024	**65,000**	–
Short term overdraft and shareholder loan	**-**	22,000
Long-term bank and other loans	**38,556**	75,000
	190,103	135,060

Amounts falling due after more than 5 years	**2024 £'000**	2023 £'000
Bank loans and borrowings	**129,923**	159,793
	129,923	159,793

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

The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI. 20% and 80% of the bond will be matured in 2027 and 2028-2031, respectively.

The indexation charge is treated as an interest cost but does not have any immediate cashflow impact on the Company. The bond was issued on 21 March 2001 and is secured upon the shares of the Company. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

The bond and debentures are at fixed rates of interest. Borrowings made under the RCFs and the short-term bank loan are at a variable rate with a margin above SONIA and the Bank of England base rate and the short-term bank loan was at a fixed rate above Bank of England base rate. The shareholder's loan was at a fixed rate of 6% per annum.

The £100m bond agreement specified that the issuer shall ensure that sufficient cash is available to meet the indexed RPI-linked increases in the bond. During the current year, the Company received £22m equity injection from the shareholder and raised a private placement debt of £10m and £30m with an institutional investor in November 2023 and March 2024. The Company then repaid the short-term bank loan of £15m from the National Westminster Bank in May 2023, shareholder's loan of £3m and £4m to its ultimate parent company, Sutton and East Surrey Group Holdings Limited (formerly known as Sumisho Osaka Gas Water UK Limited), in May 2023 and July 2023, and £10m RCF loan to the Royal Bank of Scotland in March 2024.

As at 31 March 2024, £40m and £25m were drawn down under the £50m and £25m RCFs (2023: the £50m and £25m RCFs, and the £15m short-term bank loan facility were fully drawn down) by the Company.

Both the £40m and £25m RCFs mature in July 2024 and March 2025 respectively. On 12 June 2024, the Company replaced its two existing RCF facilities with a new 18-month RCF facility of £65m with NatWest. The new facility is at 1.35% above SONIA rate per annum and will expire in December 2025.

The £40m private placement with Phoenix was executed on 28 November 2023, drawing down the first £10m in November 2023 and a final drawdown of £30.0m in March 2024 at 5.74% and 5.70% respectively.

18 BORROWINGS CONTINUED

On the calculation date of 31 March 2024 the covenants of the index linked bond – interest cover ratio (greater than 1.3x) and gearing (less than 80%) were both met. Net debt included cash in transit over the year end period for customers paying by direct debit.

LOAN COVENANTS

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

1. As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date of the 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an Interest Cover Ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement, the issuer shall submit a Business Plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulated Asset Ratio of less than or equal to 0.80.

The Company has complied with these covenants throughout the current and prior reporting period.

FAIR VALUES

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

DETERMINING THE FAIR VALUE OF FINANCIAL LIABILITIES

The fair value of the bond is based on price quotations at the reporting date.

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cashflows. There is no material difference between fair values and carrying amounts within the balance sheet of all other financial assets and liabilities.

The fair values together with their carrying amounts are shown in the balance as follows:

	2024				2023			
	Carrying amount £'000	**Fair value £'000**	**Level 1 £'000**	**Level 3 £'000**	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 3 £'000
2.874% secured index-linked bond 2027-2031	**216,368**	**229,838**	**229,838**	**–**	197,751	227,661	227,661	–
Private placement debt of £10m	**9,639**	**10,273**	**–**	**10,273**	–	–	–	–
Private placement debt of £30m	**28,917**	**30,543**	**–**	**30,543**	–	–	–	–

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

	3.25% Irre-deemable debentures £'000	5% Irre-deemable debentures £'000	2.874% secured index-linked bond £'000	Private placement loans £'000	Bank loans £'000	Share-holder's loan £'000	Short-term overdraft £'000	Total £'000	Cash/ Non-cash
Balance at 1 April 2023	50	52	197,751	–	75,000	7,000	15,000	294,853	
Changes from financing activities									
Indexation	–	–	18,179	–	–	–	–	18,179	Non-cash
Amortisation of bond cost	–	–	438	24	–	–	–	462	Non-cash
Drawdown of borrowings	–	–	–	40,000	–	–	–	40,000	Cash
Repayment of borrowings	–	–	–	–	(10,000)	(7,000)	(15,000)	(32,000)	Cash
Private placement cost	–	–	–	(1,468)	–	–	–	(1,468)	Non-cash
Balance at 31 March 2024	**50**	**52**	**216,368**	**38,556**	**65,000**	**–**	**–**	**320,026**	

19 DEFERRED TAX LIABILITIES

	2024 £'000	2023 £'000
At 1 April	**43,724**	54,543
Adjustment in respect of prior years	**(328)**	(210)
Deferred tax credit to profit and loss for the period	**(6,124)**	(6,297)
Pension asset related tax	**(2,145)**	–
Credit to the statement of other comprehensive income	**(301)**	(4,312)
At 31 March	**34,826**	43,724

DEFERRED TAX

As at 31 March	**2024 £'000**	2023 £'000
Non-current deferred tax assets	**–**	–
Non-current deferred tax liabilities	**34,826**	43,724
Carrying amount at year end	**34,826**	43,724
Total carrying amount at year end	**34,826**	43,724

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other/Tax losses £'000	**Total £'000**
At 1 April 2022	48,403	6,322	(182)	**54,543**
(Credited)/charged to the profit and loss	(3,115)	91	(3,483)	**(6,507)**
Credited directly to other comprehensive expense	–	(4,312)	–	**(4,312)**
At 31 March 2023	45,288	2,101	(3,665)	**43,724**
Credited to the profit and loss	(3,129)	11	(3,334)	**(6,452)**
Pension asset related tax	–	(2,145)	–	**(2,145)**
Credited directly to other comprehensive expense	–	(301)	–	**(301)**
At 31 March 2024	42,159	(334)	(6,999)	**34,826**

SES Water plc has an unrecognised deferred tax asset of £553k (2023: £553k) in respect of non trade deficit debits available for relief in later years.

During the year the Company changed disclosure of tax related to the defined benefit pension asset. This was done to align with the expected tax impact on the pension asset when the pension assets are realised. The change resulted in pension asset related tax moved from the deferred tax balance to presented as a reduction to the defined benefit pension asset.

20 POST-EMPLOYMENT BENEFITS

The Company participates in both a defined contribution scheme, 'Group Personal Pension Plan' (GPPP), which is available for all employees and a defined benefit scheme, 'the Water Companies Pension Scheme' (WCPS), for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 DEFINED BENEFIT SCHEME

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the Company and the board of trustees of the fund.

The Company's own Section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

20 POST-EMPLOYMENT BENEFITS CONTINUED

The risks of the scheme are as follows:

(A) ASSET VOLATILITY

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g. liability-driven investments) which respond to factors such as changes in the interest rates.

(B) CHANGES IN BOND YIELDS

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(C) LIFE EXPECTANCY

The majority of the plan's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan's liabilities.

(D) INFLATION RISK

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

GUARANTEED MINIMUM PENSION (GMP)

We have continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

SECTION BUY-IN

With effect from 31 March 2023 the trustees of the scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities.

The impact of the transaction (a loss of £10m – the difference between the premium paid and the value of the corresponding liabilities under IAS19) has been recognised outside of profit and loss (in other comprehensive income) reflecting that the purchase of the buy-in policy was an investment decision, no liabilities have been settled and there is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term.

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2022 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

As at 31 March	2024	2023
Retail price inflation	**3.15%**	3.60%
Consumer price inflation	**2.55%**	3.10%
Discount rate	**4.80%**	2.70%
Life expectancy of male aged 60 in 2024/2023	**26.1**	26.4
Life expectancy of a male aged 60 in 2047	**28.0**	28.3
Weighted average duration	**11.0**	12.0

20 POST-EMPLOYMENT BENEFITS CONTINUED

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES:

	Assets £'000	Liabilities £'000	Carrying amount £'000
At 1 April 2023	78,461	(69,250)	9,211
Interest on benefit obligations	–	(3,195)	(3,195)
Actuarial gains/(losses) due to:			
• changes in financial assumptions	–	3,970	3,970
• changes in demographic assumptions	–	786	786
• experience adjustments on obligation	–	(390)	(390)
Benefits paid	(4,381)	4,381	–
Interest on Section assets	3,634	–	3,634
Actual return on scheme assets less interest	(4,990)	–	(4,990)
Expenses	(446)	–	(446)
Pension asset related tax	(2,145)	–	(2,145)
At 31 March 2024	70,133	(63,698)	6,435

The main reasons for the decrease in the balance sheet asset over the year were the expenses of running the Section and an increase in the assumed cost of GMP equalisation, although the worsening was partially offset by interest on the surplus over the period.

The balance sheet is expected to stay relatively stable going forward, due to the buy-in policy that was purchased with JUST to insure Section benefits in full on 31 March 2023.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

As at 31 March	2024 £'000	2023 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	**600**	700
Change in inflation rate (-0.1%)	**(600)**	(700)
Change in discount rate (-0.1%)	**(700)**	(800)
Change in discount rate (-0.1%)	**700**	800
Change in life expectancy (+1 year)	**2,500**	3,000
Change in life expectancy (-1 year)	**(2,500)**	(3,000)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

TOTAL (EXPENSE)/CREDIT RECOGNISED IN THE PROFIT AND LOSS

Year-ended 31 March	2024 £'000 WCPS	2024 £'000 Unfunded	2024 £'000 Total	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Employer's part of current service cost						
Section expenses	**(446)**	**-**	**(446)**	(365)	–	(365)
Past service cost	**-**	**-**	**-**	–	–	–
Net interest credit/(charge)	**439**	**(67)**	**372**	709	(26)	683
Net (expense)/credit recognised in profit and loss account for pensions schemes	**(7)**	**(67)**	**(74)**	344	(26)	318

20 POST-EMPLOYMENT BENEFITS CONTINUED

TOTAL (LOSS)/GAINS RECOGNISED IN THE OTHER COMPREHENSIVE EXPENSE

Year-ended 31 March	2024 £'000 WCPS	2024 £'000 Unfunded	2024 £'000 Total	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Net actuarial (losses)/gains in the year due to:						
Changes in financial assumptions	3,970	51	4,021	24,352	222	24,574
Changes in demographic assumptions	786	18	804	244	1	245
Experience adjustments on benefit obligations	(390)	9	(381)	(4,418)	(73)	(4,491)
Actual (loss)/gain on Section assets relative to interest on Section assets	(4,990)	–	(4,990)	(37,576)	–	(37,576)
Adjustments to the unfunded pension valuation	–	(656)	(656)			
(Loss)/gain to recognise outside profit and loss in other comprehensive expense	(624)	(578)	(1,202)	(17,398)	150	(17,248)

CHANGES IN NET ASSETS RECOGNISED IN THE BALANCE SHEET

	2024 £'000 WCPS	2024 £'000 Unfunded	2024 £'000 Total	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Balance sheet asset/(liability) as at beginning	9,211	(802)	8,409	26,265	(972)	25,293
(Charge)/credit recognised in profit and loss	(7)	(67)	(74)	344	(26)	318
(Loss)/gain recognised in other comprehensive income	(624)	(578)	(1,202)	(17,398)	150	(17,248)
Company contributions paid	–	115	115	–	46	46
Pension asset related tax	(2,145)	–	(2,145)	–	–	–
Balance sheet asset/(liability) as at ending	6,435	(1,332)	5,103	9,211	(802)	8,409

FAIR VALUE OF SCHEME ASSETS

As at 31 March	2024 £'000	2023 £'000
Liability-driven investments	–	–
Liquidity funds	8,216	8,538
Buy-in policy	63,067	68,674
BMO Global Absolute Return Bond Fund	–	–
Buy and maintain credit	–	–
Net current assets	714	597
Cash	281	652
Total	72,278	78,461

20.2 DEFINED CONTRIBUTION SCHEME

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Year-ended 31 March	2024 £'000	2023 £'000
Current year contributions*	2,300	2,006

* Charge in the profit and loss account per note 6 is £2,300k (2023: £2,006k).

21 CALLED UP SHARE CAPITAL

Ordinary shares of 10 pence each

ALLOTTED AND FULLY PAID

As at year-ended 31 March	2024 £'000	2023 £'000
734,894,370 (2023: 514,894,370) ordinary shares of £0.10 each	73,489	51,489

During the year, 220,000,000 ordinary shares of 10 pence each were issued fully paid for cash of £22m.

All shares rank pari passu in all respects.

22 DIVIDENDS

Dividends paid to immediate parent company

As at year-ended 31 March	2024 £'000	2023 £'000
Ordinary dividend paid in 1 April 2023 – Appointed	–	1,640
Ordinary dividend paid in Dec 22 – Appointed	–	1,460
Total dividends paid	–	3,100

Dividends can be classified as follows:

As at year ended 31 March	2024 £'000	2023 £'000
Final dividend for FY 22 – Appointed	–	1,640
Interim dividend for FY 23 – Appointed	–	1,460
Total dividends paid	–	3,100

23 COMMITMENTS

The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements:

As at year-ended 31 March	2024 £'000	2023 £'000
Contracted capital commitments	2,900	3,000

24 TRANSACTIONS WITH RELATED PARTIES

The Company had the following transactions with related parties:

As at year-ended 31 March					
Related party	**Relationship**	**Net income/ (expenditure)**	**Description**	**2024 £'000**	2023 £'000
Advanced Minerals Ltd	80% owned Group company	Income	Sale of water treatment by-products and management charges	**7**	15
Advanced Minerals Ltd	80% owned Group company	(Expenditure)	Costs incurred for disposal of certain by-products	**(41)**	(20)
Total				**(34)**	(5)

The Company had the following balances with related parties:

As at year-ended 31 March					
Related party	**Relationship**	**Asset/ (liability)**	**Description**	**2024 £'000**	2023 £'000
Advanced Minerals Ltd	80% owned Group company	Asset	Receivables for sales and management recharges	**15**	4
Advanced Minerals Ltd	80% owned Group company	(Liability)	Purchase ledger position from trade	**–**	–
Total				**15**	4

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated.

Details of transactions with all Group companies can be found in the notes to the regulatory accounts in the Annual Performance Report.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at year end were £48.3m (2023: £39.0m). Within liquid resources there is £11.4m (2023: £8.7m) of restricted cash relating to the secured index-linked bond. During the year, a private placement debt of £40.0m (2023: £0.0m) was raised. In the prior year, £15.0m was drawn down on a short-term overdraft and £7.0m in the form of a shareholder loan to demonstrate suitable liquid assets at the calculation point of the adjusted interest cover ratios.

26 CONTROLLING PARTIES

The Company is a wholly owned subsidiary of SESW Holding Company Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent company and the largest group in which the results of the Company are consolidated is Pennon Group plc and the consolidated financial statements are available at Peninsula House, Rydon Lane, Exeter, Devon EX2 7HR. The intermediate parent company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited is available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

GLOSSARY

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

AMP cycle – the Asset Management Plan cycle, a five year cycle used by Ofwat to set price increases and assess performance.

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.

Purpose – the core reason for a company's existence beyond profit, guiding its values, mission, and long-term goals for positive societal impact.

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.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

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.

TCFD – Task Force on Climate Related Financial Disclosures

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

NOTES

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Consultancy, design and production
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